



Extension News Column

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Are you one of the 107 million Americans who are receiving an income tax return this spring? Last spring, those individuals who received a refund got an average of \$2345.

What are your plans for your return? Many of us look at this sudden influx of money as a gift and immediately go about planning how we can spend it. This year, I'd like you to think carefully about doing something different this year. Instead of spending it, think about investing in your long term financial fitness.

Take a look at your finances. Do you have credit card debt, a mortgage, or a worn out car? These decisions need to be made based on your personal financial condition. Let me offer my top 5 suggestions for your tax return that will improve your financial condition.

Save it. Start a savings account for the return. Having a savings account with enough money to cover financial emergencies will keep you fiscally fit. A recent survey showed that the average financial emergency costs \$2000. So it stands to reason that if you have \$2000 in a savings account, you will not have to resort to high cost credit card debt to meet that emergency. Deposit your return and continue saving to make sure you have the entire \$2000 saved.

Pay down debt. Use this return to get a head start on paying off your high cost credit cards. If you owe \$3000 at 17% and are making a payment of \$50 per month, you can expect to pay off your debt in 135 months. In addition, you'll pay more than \$3750 in interest. If you dedicate \$1000 from your tax refund to reduce the debt, you'll pay it off in 60 months and will save \$2750 in interest. This is assuming that you stop charging on the account and do not add to the balance.

Use it as a down payment. If you are in need of a new car, appliances, or other big ticket item, use the return as a down payment. If you are buying a \$20,000 vehicle, having a \$1000 down payment will reduce your monthly payment by \$20. That isn't a huge amount, but over the life of a loan, you'll save \$1440.

Make an extra payment. Whether you are talking about a car payment or your house payment, making an extra payment will yield big savings in the long run. Let's say you have a house note of \$200,000 that you will be paying off over the next 30 years. By making one extra payment each year, you'll pay for it in 22 years saving \$78,648 in interest.

Put your refund in an IRA account. This pays big dividends if you have a long time to retirement. If you are 25 years old and put \$1000 in an IRA at 5% interest for the next five years (total investment of \$5000), in 40 years you'll have over \$36,000. Not bad growth for a \$5000 investment.

Now, before you do anything with that refund, take a long look at how much is in that check. If it is \$1000 or more, consider adjusting the withholding from your check. A large refund means that you have been loaning your money to the government with no payment of interest. It might be smarter to keep that money in your own pocketbook instead of getting that large refund.