



Extension News Column

University of Alaska Fairbanks, Cooperative Extension Service, www.uaf.edu/ces/
fycit@uaf.edu, 907-474-5211, FAX 907-474-6885

Contact: Debbie Carter, information officer, 907-474-5406, dscarter@alaska.edu

Author: Roxie Dinstel, Tanana District Extension Faculty, HHFD, 474-2426,
rrdinstel@alaska.edu

Re: Pinching Pennies column

According to the IRS, the average American tax refund for tax year 2010 was about \$3,000 — a slight increase over the previous year. About 75 percent of tax payers will get a refund this year.

It feels good to get checks in the mail, but big tax refunds are not a sign of money management skills. Money you get as a refund is money that you've lent interest-free to Uncle Sam all year. If you're consistently over-withholding, visit www.IRS.gov and check out the withholding calculator. It will help you decide if you should adjust your W-4 at work so you'll have less withheld from each paycheck throughout the year.

On the other hand, if you're more capable of doing something productive with an annual lump sum versus a slightly larger monthly income, don't change a thing.

With lots of readers receiving their tax refunds, here's a list of things to do with your tax refund. Remember, your tax refund isn't some sort of magical windfall — it's *your* money, and you worked hard for it. Do something smart with it.

1. Start an emergency fund. If you don't have an emergency fund, consider opening a savings account and depositing your windfall for a rainy day. While it might not be enough to create a full-fledged emergency fund, it'll be a good start. And if you already have an emergency fund, consider adding to it. The average emergency that families had last year was \$2,000. Having that money in an account will keep you from hitting your credit cards.

2. Pay down your debt. Whether it is credit cards, an auto loan or a student loan, you need to get rid of debt. Use this money to reduce the outstanding debt.

3. Invest in yourself. Use the money to cover tuition for a course about something that interests you, or which increases your earning potential.

4. Prepay your mortgage. Send your windfall to your mortgage lender. You'll realize savings over the life of your loan, and you'll own your house outright sooner than expected. Everyone's loan is different, but I ran the numbers on my loan for an example. By paying an extra \$1,200 a year on my loan each year, I can reduce the number of

payments by 64. You will pay off the home more than five years earlier and save \$40,000.

5. Refinance your mortgage. While refinancing your mortgage to a lower rate can result in substantial savings, you typically need to bring some cash to the table. In this case, your tax windfall could be just what the doctor ordered.

6. Fund your IRA. Did you know that you can have the IRS direct deposit your refund into your Roth, Traditional or SEP-IRA? While it's too late to get the deduction for this tax year, it's never too late to invest in retirement savings and get the deduction on next year's taxes.

7. Invest in your children. Start a college fund for your kids. There's no time better than the present to get started.

8. Support your favorite charity. Not only does making a charitable donation help a worthy cause, it's also deductible on *next* year's taxes.

9. Add it to your "sunny day" fund. While emergency funds are all well and good, everyone needs a bit of fun and games every now and then. Why not set some aside for a future vacation or some other special expenditure?

10. Adjust your withholding. Last, but certainly not least, you should consider adjusting your withholding so you don't end up giving the government an interest free loan during the upcoming year.

OK, so this list doesn't sound as appealing as a new flat-screen TV, but these financial steps will add to your bottom line for the future.

Roxie Rodgers Dinstel is a professor of extension on the Tanana District Extension Faculty. Questions or column requests can be e-mailed to her at rrdinstel@alaska.edu.