

# What You Should Really Do With Your Tax Refund

by Megan Nye, April 17, 2018



If you're like most people, the only good part about tax season is when it's finally over — especially if you end up with a refund. But before you make plans to burn through that check as soon as it hits your bank account, consider the 90/10 rule.

This handy guideline recommends using 10% of a windfall however you want — a spontaneous weekend getaway, a new spring wardrobe, a bottomless brunch (or five) — completely guilt-free.

Now you're probably wondering what to do with the remaining, and much larger, 90%. With the right strategy, you can use that refund check to make some powerful money moves in your life. Here are our favorites.

## 1. Fill Your Emergency Fund

A recent [GOBankingRates study](#) found that 57% of people surveyed have less than \$1,000 in savings, and 68% of that group has nothing saved at all. But, when you face an unexpected expense, a solid emergency fund can protect you against having to rack up credit card debt, dip into a line of credit or take out a high-interest payday loan.

Saving up for six months' worth of expenses is a good rule of thumb, says Brian Frederick, CFP®. So if your cash reserve is looking a bit thin, think about opening up or adding to a high-interest savings account with a portion of this year's tax refund.

## 2. Squash Your Debt

Once you're on your way to building a healthy emergency fund, it's time to start tackling your debt. First, make sure you're covering the minimums on each of your lines of credit. Then, take whatever extra

## SHARE THIS ARTICLE



## RELATED



### 6 Reasons to File Your Taxes Early



### How the New Tax Law Affected My Paycheck — And What I'm Doing About It

more sure you're covering the minimums on each of your lines of credit. Then, take whatever extra money you have for debt repayment and put it toward the debt with the highest interest rate. Starting with the highest interest rate is known as the debt avalanche method, and it can help you save time and money when you're trying to chip away at your balances.

### 3. Pay Your Future Self

Are you on track with your retirement savings? With the power of compound interest, today's tax refund could blossom into a healthy chunk of change that you can enjoy down the line.

If you don't have a 401(k), consider if getting a start on your retirement savings through traditional or Roth IRA works for your situation. Just be sure to know what the contribution limits are (\$5,500 for 2018) and what the Roth IRA income restrictions are to avoid a hassle at tax time next year.

### 4. Contribute to a Big Savings Goal

If you're squared away on your emergency fund, debt payoff plan and retirement savings, one of the best things you can do at this point is put your refund toward one of your financial dreams. For instance, you might want to ...

- Save to buy your own place
- Pay for a career development course
- Launch your own business or go freelance
- Finally take that dream vacation

If you're saving for multiple goals, consider opening a high-interest savings account for each one. You'll be able to direct money easily into specific buckets and track your progress toward that magic sum. If you've got a goal that's more than five years out, you may want to consider saving for it in a brokerage account to give it more potential to grow.

### 5. Share Your Windfall

Want to spread your good fortune around? Giving to a nonprofit is an excellent way to improve the world with your win. Plus, when you donate to your favorite charity, you may be able to deduct your contribution on next year's tax return if you choose to itemize deductions.

### A Parting Note for Next Year's Taxes ...

Getting a refund is preferable to owing, of course — but, in reality getting a huge refund isn't necessarily a great thing.

Getting a lot back means, in essence, that you've temporarily but voluntarily given the government money that was yours all along. And, while the tax man was holding onto it, you were denied the benefit of that money. In other words, maybe you could have used more cash throughout the year to cover certain expenses, or perhaps you missed out on interest you could have earned if you had put that cash in a high-yield savings or investment account.

So how do you know if you're in the right ballpark? Aim for a refund check or tax bill of \$500 or less, Frederick recommends.

Even if you haven't dealt with significant refunds or big tax bills in the past, the recent overhaul to the tax law could change that. Frederick recommends that you feed your financials into the updated [IRS Withholding Calculator](#) to ensure that your W-4 withholdings and estimated tax payments are on target.

If you think you need to readjust mid-year, don't worry. You can file a new W-4 with your employer or, if you're a freelancer, tweak your estimated tax payment for the next quarter.

*Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, CFP® (with plaque design) and CFP® (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.*



#### LearnVest

[About Us](#)

#### Categories

[Money](#)  
[Career](#)  
[Life](#)  
[Debt](#)

#### Legal

[Privacy Policy](#)  
[Terms of Use](#)

#### Connect with us



LearnVest © 2019 - Make Progress On Your Money  
Your privacy matters. [Learn more.](#)

LearnVest, Inc. provides free financial education. The information on this site is for educational purposes only and may not be pertinent to your individual situation. Any decisions you make about money are your own. Please see a financial advisor if you want professional help with your finances. LearnVest, Inc. is owned by NM Planning, LLC, which is a subsidiary of The Northwestern Mutual Life Insurance Company, Milwaukee, WI. LearnVest, Inc. is not an investment adviser, broker-dealer or insurance company.

