

## 10 Smart Ways to Use Your Tax Refund

How to resist the urge to splurge and make better decisions with your money



This is the time of year when many Americans start salivating over their federal income tax refunds.

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And why not? The IRS says the average refund issued so far in 2015 is \$3,120. It's easy to blow a nice windfall like that by shopping, taking a vacation or buying some high-end electronics. The better financial move is to use that refund wisely. Here's how:

## 1. Boost your emergency savings fund

Most financial advisers recommend having an emergency fund equal to at least six months' worth of your expenses. That safety net could come in handy when the unexpected happens, such as an illness, job loss or the death of a spouse. "If you are lucky enough to get a tax refund, send half of it to savings," says certified financial planner Donna Skeels Cygan, owner of Sage Future Financial LLC and the author of *The Joy of Financial Security*. "Saving more money is one of the best commitments you can make," she says, noting that more than one-fourth of Americans have no emergency savings.

## 2. Pay down debt

Whether it's credit card debt, an auto loan or even college bills, if you're 50 or older, now is the time to start aggressively slashing these debts. Student loans seem to be especially burdensome for people 65 and over. A report by the U.S. Government Accountability Office found that even though Americans ages 65 to 74 accounted for just 4 percent of federal loans outstanding, these borrowers still owed a collective \$18.2 billion. And they have much higher default rates.

## 3. Open an individual retirement account

socking away money in an IRA may lower your tax bill, and it increases your retirement security. In 2015, the maximum contribution you can make to a Roth IRA or traditional IRA is \$5,500, depending on your income and tax filing status. Individuals 50 and over can make an additional "catch-up" contribution of \$1,000. Making your IRA contribution before April 15, 2015, allows you to claim it on your 2014 return.

## 4. Pay down your mortgage

Owing money on a house can be a big burden. "While there is really no escaping the hefty debt of a mortgage, making even one extra mortgage payment a year could end up saving you thousands in interest over the years," says retirement specialist Scott Cramer, president of Cramer & Rauchegger.

See also: [When to pay off your mortgage](#)

## 5. Make home improvements

The annual energy bill for a typical single-family home is roughly \$2,200, according to 2009 figures from the U.S. Environmental Protection Agency's Energy Star program. You can do small repairs like sealing the heating and cooling ducts that run through your garage, attic, crawl space or unheated basement. Purchasing a solar water heater may net you a tax credit. Even without a tax perk, going energy efficient is money well-spent.

## 6. Donate to charity

If you don't really need the cash, use your refund to support a worthy cause. Be sure to get a receipt and also make sure you're contributing only to an IRS-approved 501(c)(3). That way, you can get a tax deduction next year for your generosity.

Read Online: <http://www.aarp.org/money/taxes/info-2015/tax-refund-smart-money-tips.1.html>