Publication: U.S. News
Date: March 2, 2017
Author: Debbie Carlson

# 3 Ways to Maximize Your Tax Refund

*Instead of spending all the cash, these tips can boost your bottom line.*

Expecting a tax refund? Join the club.


*Most Americans plan to stash away their tax refund in savings, according to a recent survey. (ISTOCKPHOTO)*

In 2016's filing season, the average tax refund was close to $2,800 and about 75 percent of Americans received one, according to TurboTax. That's a significant windfall, and it's easy to look at that money as something to spend frivolously. While a little splurge is good, there are ways to maximize your tax refund.

"A lot of people look at the refund as a bonus, cash paid to you so that you can go buy a new fridge or a new car or go on vacation. But it's not," says Ash Toumayants, president and investment advisor at Strong Tower Associates, in State College, Pennsylvania.

A refund means a tax overpayment. While most financial advisors frown on large refunds, others acknowledge that they're a defacto saving mechanism for many people who otherwise might not save, albeit an interest-free one.

Whether a tax refund occurs by choice or happenstance, Donna Skeels Cygan, president of Sage Future Financial in Albuquerque, New Mexico, and author of "The Joy of Financial Security," encourages anyone who receives a refund to save at least half of it.

"If you don't it will be frittered away," she says. "If you save half of it, then you can do something else with the other half."

**Make a plan.** The IRS says it issues more than nine out of 10 refunds in less than 21 days, and Rebekah Barsch, vice president of planning for Northwestern Mutual, says use that time to write down three top financial goals to make the most of the money.

Barsch recommends short-term and long-term goals. Short-term goals can include a small splurge, while long-term goals can include paying down student loan debt or saving for something in the future, whether it's in a retirement account or a down payment for a house.

Most Americans say they're planning to save their extra cash. A February GOBankingRates survey showed 41 percent of survey participants plan to squirrel away their tax refund.

Skeels Cygan says people who don't have an emergency fund should use their tax refund to jump start a rainy-day fund.

"That's the No. 1 priority," she says.

Many people have their tax refunds go straight to their checking accounts, which increases the likelihood it may be spent mindlessly. However, Gil Charney, director at The Tax Institute at H&R Block in Kansas City, Missouri, says IRS form 8888 allows taxpayers to direct their refund to be deposited in up to three different existing accounts. Filers will just need to have the account number and routing number available.

**Where to save.** Earmark the funds for a traditional or Roth individual retirement account, several financial advisors say.

"Definitely put money in an IRA. Whether you do a Roth or a traditional depends on where you think your tax bracket might be when you retire. But I'm a fan of Roth IRAs because gains are tax-free," says Paul Jacobs, Atlanta-based certified financial planner and chief investment officer of Palisades Hudson Financial Group.

Terry LaBant, senior wealth strategist at Calamos Wealth Management in Naperville, Illinois, says for people who are looking to lower their taxable income for next year, consider the traditional IRA since it's a tax-deferred account. People can put up to $5,500 a year into an IRA, and those older than 50 can chip in an additional $1,000.

LaBant and Charney say people who file early enough to get their tax refund prior to the tax deadline can use part of their refund to fund 2016 contributions if they haven't maxed out their limit. It's important to clearly indicate that the monies going to the IRA are for 2016, otherwise the custodian might earmark the funds for 2017.

Charitable donations are another way to help reduce taxable income next year. Skeels Cygan is a fan of donating part of the refund.

"When we give to charity, based on neuroscience research, it lights up the part of the brain that gives us joy," she says.

Charities receive the bulk of their donations in December, but LaBant says many can use funds earlier in the year. Donations can be cash or a similar amount of stock to the charity. For people who were planning to invest part of their refund anyway, donations of stock in lieu of cash can help both the donor and the receiver.

“(By doing so) you’ve gotten some unrealized capital gain off your plate, you’ve moved the stock to charity so you’ve lowered your future tax burden, but you’ve immediately given yourself a chance to invest in more stock,” he says.

For people who have already contributed enough for their own retirement accounts and have children or grandchildren, funding a 529 plan to help pay for college is another idea, Toumayants says. Many states allow 529 donors to save on state income tax, he adds.

Parents and grandparents can also put money in a Roth IRA for their kids, provided the recipient has earned income, several of the experts say.

**Invest in yourself.** Barsch says taking a work-related class can pay dividends in the future.

“For millennials, their biggest asset is the income potential,” she says. “That goes for Gen X, too.”

Work-related classes might also be eligible for a tax write-off when filing next year, lowering taxable income, she adds.

Even if the classes aren’t purely work-related, Skeels Cygan and Barsch say classes that improve another part of life can also reap personal rewards. Fitness lessons, art classes, spiritual retreats are all great ideas for self-improvement.

“We’re so connected all the time,” Barsch says. “Getting a chance to un-connect can really help us get a handle on work-life balance.”

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