

**News Article**



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**Use Your Tax Refund Wisely**

Are you expecting a big federal tax refund this year? You are not alone!

Tax refunds can be a wonderful financial windfall. Unfortunately, too many people receive substantially less than they are due because they take out expensive loans to get an instant refund. Refund anticipation loans (RALs) are high-cost, short-term loans secured by a taxpayer's expected tax refund.

Studies show that many consumers are unaware that RALs are loans, let alone have any knowledge of their high cost. RALs generally last about 10 days, which is about the time it takes to receive a refund from an electronically filed tax return. High fees for these short-term loans generally translate into triple digit annualized interest rates.

Some of the major "players" in the RAL industry include large national tax preparation firms, finance companies, and high-cost "fringe financial providers" such as payday lenders, check cashers, and rent-to-own stores.

What if you really need your tax refund money immediately and can't wait for your refund check? There are several cheaper alternatives to RALs. Other options for quick cash include short-term loans from family or friends, credit union loans, and credit card cash advances. If you e-file your return, you should have your money in 2 weeks or less. File a paper return with direct deposit of your refund to a bank account and the turn-around time is often less than a month.

While you're waiting for your tax refund, make plans to use it wisely. Below are a dozen suggestions to increase your financial health:

1. Pay off high-cost debt (e.g., credit card bills).
2. Start or replenish an emergency fund of 3 to 6 months' expenses.
3. Start or increase deposits to tax-deferred employer savings (e.g., a 401(k) plan).

Use your refund to offset the reduced take-home pay that will result from making increased plan contributions.

4. Fund a traditional or Roth individual retirement account (IRA).
5. Start or increase deposits to a 529-college savings plan for your children or grandchildren.
6. Refinance your mortgage and use the refund to pay necessary closing costs.
7. Make extra principal payments on your mortgage to shorten its term and lower the total cost.
8. Invest in home improvements that have a high payback, such as landscaping and kitchen upgrades.
9. Purchase necessary business equipment (e.g., a computer) if you are self-employed.
10. Buy a needed "big ticket" item, such furniture or a major appliance, for cash instead of using a credit card.
11. Purchase a few hours of a certified financial planner's time to get advice and a financial check-up.
12. Donate all or part of your refund to support a worthwhile charity and receive a 2007 tax write-off.

There's just one more thing that taxpayers should consider doing. Change your tax withholding to increase your take-home pay now and lend less money interest-free to the Federal government. To do this, contact your employer's payroll office and file a new W-4 withholding form.

Beginning in 2007, the IRS will allow taxpayers to direct deposit tax refunds in up to three different accounts - checking and/or savings - at up to three different U.S. financial institutions by completing form 8888.

Source: Rutgers University Money 2000

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