10 Smart Ways to Spend Your Tax Refund

By Pat S. of Money Crashers

1. Start or Increase Your Emergency Fund - Without an emergency fund, just one surprise major expense can send you on a debt spiral toward financial disaster. Many experts say that your fund should contain about six to eight months’ worth of savings in an easily accessible interest-bearing account (such as an online savings account or money market account). Storing that much money might take months (or even years) if you’re just taking a little bit out of each paycheck, so use your refund to make a significant deposit to your emergency fund.

2. Pay Off High-Interest Debt - After establishing an emergency fund, the next best thing you can do with your tax refund is reduce or eliminate any high-interest debt that you’re carrying. Put your refund to work by starting your debt elimination program of choice, paying off payday loans, title loans, debt consolidation loans, high-interest private student loans, car loans, or credit card debt.

3. Spend It On Something You Need - Are you having car trouble? Do you need a new winter coat? Have you put off important dental work? You need to take care of these essentials, and once you collect your refund, you may be able to cover the cost.

4. Start Itemized Savings Accounts - Now is the time to start practicing the mindset of the disciplined and frugal consumer. First, make a budget, and break your refund into pieces, each of which plants the seed in your bank account for important future purchases. Putting your refund toward specific savings goals can prevent you from taking on debt down the road, when needs or desires arise. Capital One 360 offers some great features that allow you to set up these specific savings goals in your account.

5. Refinance Your Mortgage or Make Home Improvements - When you refinance your mortgage, you must still pay closing costs and fees. But use the refund to pay for the closing costs, and you can save thousands of dollars per year on mortgage interest.

6. Invest In a Tax-Sheltered Account - Depending on your income level, goals, age, and whether you have already fully funded your tax sheltered accounts, using your tax refund to get a head start on Roth IRA contributions or 529 college savings plan contributions can be a great move. This may result in your three-digit tax refund growing into a four-digit addition over the course of several years.

7. Invest In a Taxable Account - If you’ve already contributed the maximum to your tax-sheltered accounts, consider opening a brokerage account with a discount broker (such as Scottrade, TradeKing, or Sharebuilder). Lean toward conservative and diversified investments with low expenses, or look into mutual funds. Index funds or ETFs may be a good choice for you, especially if you are not interested in actively managing your stock portfolio. They offer instant diversification and very low expenses.

8. Donate to Charitable Causes - On a tight budget, making charitable donations can unfortunately slip down on your list of priorities. Your refund gives you a chance to give a little back.

9. Get a New Business Up and Running - Have you been looking for seed money to take your business to the next level? Do you have a venture that you want to start? You can use your refund to move in the right direction. It's a great opportunity to turn your refund into income for years to come, and get a few more small business tax deductions next year as well.

10. Spend It On Something You Want - You saved all year, and now you’ve earned the right to splurge a little bit. Don’t feel guilty about using the extra cash for a summer vacation or to treat your family to a nice dinner. Just don’t get carried away – a $500 refund is no excuse for a $3,000 trip.