

Let's Talk Finances

7 Ways to Make Your Tax Refund Count



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More than 70 percent of the nation's taxpayers received a tax refund averaging nearly \$3,000 in 2018, according to the Internal Revenue Service, and it is anticipated they will get a similar amount this year. As Americans receive their refunds, the American Bankers Association has highlighted seven tips to help them use the money wisely.

"Prioritizing your tax refund to create an emergency fund and pay off debts first will help position you for financial comfort the rest of the year," said Corey Carlisle, executive director of the ABA Foundation. "As those who have been affected by the federal government shutdown this year can attest, financial challenges can arise quickly and it's critical to have money set aside for those unexpected hardships."

Carlisle highlighted recent changes to the tax code as a reason for consumers to file their returns as early as possible this year.

"There are a lot of new wrinkles to the tax code that may surprise people, so you'll want to get a jump start on filing this year and then talk to your employer about adjusting your withholdings to calibrate them accordingly," said Carlisle.

To help consumers make the most out of their money, ABA has highlighted the following tips:

- **Save for emergencies.** About 40 percent of Americans are positioned to cover a \$400 emergency expense. You can prepare by opening or adding to a savings account that serves as an "emergency fund." Ideally, it should hold about three to six months of living expenses in case of sudden financial hardships like losing your job or having to replace your car.
- **Pay off debt.** Pay down existing balances either by chipping away at loans with the highest interest rates or eliminating smaller debt first.
- **Save for retirement, your child's education or future health expenses.** Open or increase contributions to a tax-deferred savings plan like a 401(k) or an IRA. Your bank can help set up an IRA, while a 401(k) is employer-sponsored. Look into opening a tax-advantaged 529 education savings plan to ensure school expenses will be covered when your child reaches college age.

Or save for future health expenses with tax-free dollars by investing in a Health Savings Account.

- **Pay down your mortgage or student loans.** Make an extra payment on your mortgage or student loans each year to save money on interest while reducing the term of your loans. Be sure to inform your lender that your extra payments should be applied to principal, not interest.
- **Invest safely with U.S. savings bonds or municipal bonds.** The U.S. Treasury allows for savings bond to be purchased using your tax refund for as little as \$50. Savings bonds earn interest for a maximum of 30 years.
- **Invest in your current home.** Use your refund to invest in home improvements that will pay you back in the long run by increasing the value of your home. This can include small, cost-effective upgrades like energy-efficient appliances that will pay off in both the short and long term – and with tax credits (as long as Congress continues to renew the program). If you have more substantial renovations in mind, your bank can help with a home equity line of credit.
- **Donate to charity.** The benefit is two-fold: Giving to charity will make a difference in your community, and you can also claim the tax deduction, if you itemize.

ABA also stressed the importance of lower-income workers filing a tax return—even if their income is too low to trigger any federal tax liability—in order to potentially claim the Earned Income Tax Credit (EITC). Depending on a recipient's income, marital status and number of children, the EITC can result in a refund of up to \$6,431 to help them ensure financial security.