OK, the headline of this article is admittedly a bit deceiving. You probably think it means I fun ways to blow your tax refund: a plasma-screen TV, a vacation, hundreds of lottery tickets or a shopping trip to the mall. But you’ve lived all year without that money, and there are more useful ways to “spend” your refund.

With lower federal tax rates instituted in 2003, households are expected to receive larger-than-normal refunds in 2004. And if you’re like many Americans, you’ll spend most or all of that refund instead of saving it, investing it or paying down debt.

A survey in 2003 by the Cambridge Consumer Credit Index found exactly those results. It asked taxpayers in February 2003 what they anticipated doing with their refund assuming passage of President Bush’s bill to cut taxes. At the time, 28 percent planned to put the money in a bank account, 23 percent were
going to pay off bills, 19 percent were going to pay off credit cards, 9 percent were going to spend it on “everyday items” and 6 percent were going to invest their refund in stocks and bonds.

The survey followed up in December 2003 to see how taxpayers actually spent the early refund checks they received after Bush signed the tax act in May 2003. Only 18 percent put their money into a bank account, 33 percent paid off bills, 20 percent spent the money on everyday items, 15 percent paid off credit cards and only 2 percent invested their money.

After many frustrating hours spent slaving over your taxes, the payoff has finally arrived. Amongst the junk mail and myriad of catalogues, there’s your tax refund. If your tax refund (or a job bonus or any financial windfall, for that matter) has arrived (or is on the way), here are some thoughts offered by Dennis Filangeri, a Certified Financial Planner based in San Diego, on how to make that money “work” for you.

Reduce high-interest debt. The 15 percent in the Cambridge Index survey who reduced credit card debt had the right idea. Put that refund toward a credit card balance carrying a 14-percent interest rate, and you’ve guaranteed yourself a 14-percent return on your money. And keep it paid down once you do. Lowering high-interest consumer debt is one of the best financial moves you can make.

Establish an emergency fund. Nearly 60 percent of the households in America with children under age 18 live paycheck to paycheck, according to a recent survey by MetLife. A pool of “rainy day” cash to meet emergencies would be welcome news for them. Try to keep at least three months’ living expenses in a short-
term savings account, such as a money market or checking account.

**Put it into a retirement plan.** One in four eligible workers doesn’t participate in his or her employer’s 401(k) plan, according to several studies, and many more workers don’t fund their plan sufficiently to earn all of their employer’s match.

Say you receive an $800 tax refund. Put the money into your 401(k) and you will immediately earn another $400 if your employer matches 50 cents for each dollar you contribute. You’ll double your contribution if the employer kicks in a $1 match. That’s a lot of bang for your refund.

**Other retirement accounts.** No 401(k) plan or other employer-sponsored plan at work? There are always individual retirement accounts, and if you’ve maxed out contributions to those accounts for the year, consider tax-efficient mutual funds or maybe annuities.

The self-employed have even more options, including solo 401(k)s, simplified employee pension plans and Keogh plans.

Put it toward college. Invest it in a college account for your children. The younger they are, the more years the refund will have to grow. Consider investing in the tax-free growth of a 529 college savings plan, a Coverdell education savings account, or U.S. savings
bonds. A baby born this year can expect to shell out $220,000 for a private college or $110,000 at a public school in 2022, according to a study by the College Board, a nonprofit education organization that tracks the costs of higher education.

**Set up a gift fund.** Use the rebate as a Christmas gift fund. The fund allows you to spend the money and get your holiday shopping out of the way at the same time.

**Spruce up the homestead.** Thinking of a do-it-yourself landscaping or remodeling job? Take the tax refund and get a professional to sketch out a plan for you to follow. For a few hundred dollars you will know exactly what you’re getting into and how much of it you want to do yourself. Plus increasing the value of your home can put extra equity in your pocket.

**Make an extra house payment or save for a down payment.** Knocking off a chunk of your mortgage principal can save you thousands in interest over the long run. But accelerating mortgage payments isn’t always the best move, depending on your current mortgage rate and investment alternatives. You might want to consult a planner before making this use of your refund.

**Buy additional or new insurance.** Do you need additional disability coverage or perhaps long-term care insurance! While you’ll need to be able to keep the premiums up in subsequent years, the refund might at least get you started.

**Take stock.** Historically, stocks have produced nice returns, and just investing a few hundred dollars can get your nest egg off to a nice start. The biggest mistake people make is thinking [what they have] is too small an amount to invest,” Filangeri says. ‘Rich people start off as poor people. The difference is they take their nickels and dimes and invest them—they didn’t spend it all at the mall.”

Have fun. OK, keep at least a little of it to have fun with, or spend it on something that you “want” instead of “need.”

**About the Author**
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