

## SMART MONEY TIPS

# Smart Uses

## *for Your Tax Refund*

Get the most out of your tax refund by developing a plan. Make a commitment to enjoy part of the money. Be smart, and use the rest for practical purposes. Allocate 80 percent of your refund for “smart uses” and the remaining 20 percent as cash for enjoyment or to make a special purchase.

Consider the following smart uses to improve your finances and make the coming year more enjoyable.

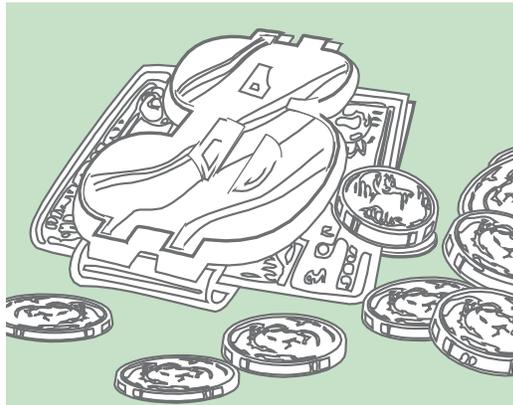
### PAY DOWN DEBT

Paying down credit card debt will save you money on high interest rate debt. Credit card debt can be hard to pay off when making only the minimum payment because most of the payment goes to interest. If you carry over a balance every month, only a few dollars of each minimum payment goes toward reducing the principal owed. Paying down debt is like earning interest. For example, if your credit card charges 18 percent interest on purchases, paying down that debt is like earning 18 percent on your money. Reducing credit card debt will improve your financial security because credit card companies can and do increase interest rates, even on “fixed interest rate” cards. Beginning in July 2010, credit card issuers will have to follow stricter rules, which provide consumers greater protection against abrupt changes of interest rate. Until then, reducing this debt is the best way to avoid unpleasant payment increases.

### SAVE FOR SPECIAL EVENTS

Set aside some money for holiday and birthday gifts. Make an additional deposit into a savings account or open a new one especially for this purpose. Then make regular additional deposits over the coming

months. Whatever you save in this account will help you avoid creating new credit card debt when those special events occur. If you changed your income tax withholding and are receiving additional money in your paycheck, consider putting 10 to 15 percent of the recaptured pay into this account. Congratulations! You are on your way to stress-free holidays and birthdays.



### OPEN AN EMERGENCY SAVINGS ACCOUNT

Open an emergency savings account to provide easy access to funds for unexpected expenses. When the tire goes flat, the car battery needs replacing, or the washing machine breaks, money in an emergency account will let you pay for these expenses without going into debt. For example, if you

are stranded because your car breaks down and have to use your credit card, you can use the money in an emergency account to pay the credit card charge in full. An emergency savings account can help you stay out of debt or keep credit balances from growing while you pay off the credit account. Do not feel bad or give up if you must use some of the money when the emergency account is just starting to grow. Recognize the value of being able to pay for the

expense in cash or mostly cash. Make a commitment to keep adding to the account. An emergency savings account is an important tool to help you stay on track to reduce and eliminate debt.

### FATTEN YOUR RETIREMENT SAVINGS

A modest deposit can make a substantial impact on your retirement account. For example, if you deposit \$400 from your tax refund in a Roth IRA account at age 29, earn an average return of 8 percent, and add \$100 a month to the account, it will grow to \$248,872 by age 65. Suppose you deposit only \$50 a month? The account will grow to \$127,629 by age 65. The account balance can grow even more by increasing one or more of the following components: the initial deposit, the regular monthly deposit, the average interest rate earned, or the length of time to retirement.

### Start Your Plan Today

Decide which Smart Uses fit your current financial situation, and get started. Remember, you can start with one or two Smart Uses and add others as your budget allows. Smart financial management is an ongoing daily process. Take the first step today.

See another Extension publication for more information:

Bird, Carolyn L. *Smart Money: Getting the Most from Your Tax Refund (FCS-528-01)*. Raleigh: North Carolina Cooperative Extension, NC State University.

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