

FINANCIAL FOUNDATIONS

Building Blocks toward Financial Freedom

JACOBS FINANCIAL MANAGEMENT LLC



IDEAS FOR YOUR REFUND

Instead of simply spending it, consider the alternatives.

While many people spend their refund, there are other things you can do with it ...

Pay down debt. Go ahead, make that extra mortgage payment or credit card payment. You will not only reduce your balance, but also your interest costs.

Build your savings. You could start a new savings account via a simple automatic payroll deduction. If you have a larger refund this year thanks to an extra exemption for a new child, you could start an education fund for that child. Your refund could also help you save up for a down payment on a home, or build an emergency fund.

Put it into your IRA. You can do it yourself, or via direct deposit by the IRS. But take note: if you have a tax-deductible IRA, you will want to authorize the direct deposit of the refund into that IRA way before April 15th rolls around. There is often some lag time in this process, and if you authorize the direct deposit too close to the deadline, there is a real risk that your refund might be direct-deposited AFTER the deadline (causing you to lose the deduction for the applicable tax year). If you do end up deciding in March or April to put your refund into your IRA, it is safer to designate that deductible IRA deposit for the COMING tax year, rather than risk having to amend your return. Of course, with a Roth IRA it is less complicated: there is no tax deduction involved. The IRS can also direct-deposit your refund into a SEP IRA, an HSA or a Coverdell ESA.

Put it into your business or home. Why not replace a computer or copier? Why not upgrade (or create) a home office, or make your home more attractive or saleable?

Split it. The IRS has a new form (Form 8888) that lets you split your refund among up to three accounts held by up to three different U.S. financial institutions (banks, credit unions, and investment firms). So you can potentially divvy up your refund between savings, checking and investment accounts, if you wish.

Before you make a move with your refund money, talk to a financial professional about your options. Your refund money could help you meet a need, and if it is invested, that investment may grow to fund a dream or two.

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