

5 SAVVY WAYS TO SPEND YOUR TAX REFUND IN 2015

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At the beginning of a new fiscal year, many Americans are looking to 2015 to catapult their financial goals. While most people see the New Year as a way to start from scratch, abandoning old spending patterns can be challenging. A great place to start the planning process is with your tax refund check. Consider ways to invest it now; when it arrives, you'll know exactly where to apply it.

MAKE A CONTRIBUTION TOWARDS AN IRA

If you already have an IRA (or individual retirement account), one of the best things you can do with your refund check is to apply it towards your savings. There are a few reasons why this makes a lot of sense. First, thanks to the IRS, it can be automated.

Based on the 2006 Pension Protection Act, you can directly deposit your tax refund into your Roth, Traditional, or SEP IRA by indicating so on Form 1040. According to the IRS, this option allows your funds to get deposited fast and with fewer complications.

If you don't have an existing IRA account, it pays to open one because it can increase future tax refund dollars. Say, for example, you're married (filing jointly), and the sum of your taxable income for 2014 is \$80,000.



Assuming neither you nor your partner contributed to a workplace retirement plan, you are eligible to deduct \$5,500 (from gross income) to apply towards a traditional IRA. A traditional IRA can help some people bump into a lower tax bracket.

"If you are at the very bottom of a tax bracket, an IRA can help you pay less taxes overall," says Rob Webber, CEO of Money Saving Pro, a consumer advocate site reviewing many of the top IRA providers. "You may be able to avoid paying taxes on enough income that is contributed to a traditional IRA to bump you down a bracket."

Since that totals \$11,000, your taxable income is lowered to \$69,000. Coupled with your other deductions, this can put you in a lower tax bracket, ergo, reducing your tax liability.



MAKE ENERGY EFFICIENT HOME IMPROVEMENTS

With a typical tax refund check averaging a little less than \$3,000 in 2014, that's enough to make some key home improvements that will increase your home's value and qualify you for residential energy property credits. Certain types of water heaters, electric equipment, insulation, etc., allow you to claim a credit of up to 30 percent of the cost. At the same time, in other cases, you may be able to deduct the cost of the appliance in its entirety. However, since not all energy-efficient equipment adheres to the IRS requirements, it's best to get a home energy audit first.

REDUCE YOUR PERSONAL DEBT LOAD

Statistical data reveals that the average household credit card debt is roughly \$15,000. Other sources of debt may come from student loans or an outstanding mortgage. Applying a tax return towards your debt is one way to lower your monthly interest rate payments and raise your credit score. In an ideal situation, your debt-to-credit ratio should not exceed 30 percent, experts say. If you've gotten your refund this year and you are looking for somewhere to spend it, put it towards any existing debts you have.

GROW A SIX MONTH EMERGENCY FUND

If you've already maxed out your IRA contributions for the year and don't carry any outstanding debts, consider applying your refund to an emergency fund. It's important to set aside at least 6-months worth of expenses. So, if you currently spend \$4,000 a month on basic necessities, your six-month emergency fund should have a minimum of \$24,000.

INVEST IN YOUR CAREER ASPIRATIONS OR DREAMS

There's no greater investment than in your aspirations. If this involves learning a new skill, take classes or lessons. You'll never regret an investment that results in your self-growth.

