

## To Spend or Not to Spend? What to Do With Your Refund

### Use that tax refund wisely!

Here's a list of ways you can use your tax refund to improve your overall financial situation. The overall benefit of having your refund work for you can be far reaching.

1. Pay off or pay down credit card debt. Last year, the average amount of a tax refund was \$1,743. Applying most of that refund to a high credit card balance (several thousand dollars, for example) can save you thousands of dollars in interest that you would have paid over the life of the loan.
2. Pay down your mortgage. You'll be amazed how much interest you can save over the life of a mortgage if you prepay some of the principal.
3. Open an IRA. You can now contribute up to \$3,000 annually and deduct the contributions. An additional amount of up to \$500 may be contributed for individuals age 50 or older. Earned income requirements and age limitations apply. Also, beginning this year, low- to moderate-income taxpayers can qualify for the Saver's Credit, a tax credit of up to \$2,000 for contributing to a retirement savings account.
4. Open a Roth IRA. Roth IRA contributions are not tax deductible, but qualified withdrawals from the account are not

**// It's hard not to spend your tax refund on something you really want, because we all think we deserve it. But one of the best ways to use your tax refund is to pay off debt. //**

— Sheila Bartlett,  
 CPA Tax Research  
 Specialist

taxed. Qualified withdrawals may be made at any time tax-free and penalty-free. The Saver's Credit applies to Roth IRAs as well.

5. Invest it. Investing your refund in stocks, bonds, mutual funds and/or money market funds can provide higher returns than a savings account, though investing is riskier and generally involves broker's fees and other expenses. A financial advisor can help you choose the best way to invest to meet your personal financial needs. (You can call 1-800-HRBLOCK to locate the H&R Block Financial Advisors' office nearest you.)
6. Save for a child's college education in an account that grows tax-free earnings. This year, the contribution limit for the Lifetime Learning Credit doubled to \$2,000; the Education Savings Accounts (ESAs) quadrupled to \$2,000 in 2002, and Qualified Tuition Program accounts (QTPs), also called Section 529 Plans, have no annual contribution limits. You might also receive a deduction on your state taxes for contributing to your state's QTP.
7. Save toward a down payment on a home or a new car. Traditional savings accounts, money market accounts and certificates of deposit (CDs) are ways you can save your refund.
8. If you make estimated tax payments, you can apply your 2003 refund to your 2004 taxes.