

Get There

Torn between saving and spending your tax refund? Here's how you can do both.

By **Jonnelle Marte** April 6

It's a conundrum taxpayers face this time of year. Should they be responsible with their tax refunds, or should they use the cash to treat themselves?

Financial advisers will tell you pay down that credit card debt or to pad your savings. But neither of those is as exciting as buying a new TV or booking a flight to Europe.

So, why not do both? The average refund is close to \$3,000, making it a nice influx of cash. For many people, it's enough of a windfall to help them get a little closer to meeting their financial goals. "You can't do all work and no play," says Sharon Miller, a national sales executive at Bank of America Merrill Edge. "You've got to make sure that you're balancing it out."

So why not save a little, invest a little and use part of it to pay down debt? Figuring out how to divide that will depend on each person's situation, Miller says.

Certain things should take priority. Anyone paying 18 percent on a credit card balance might be digging themselves into a deeper hole if they spend the cash instead of using it to get rid of that debt, says Greg McBride, chief financial analyst for Bankrate.com. "Paying down that balance is earning you a risk-free return of 18 percent," he says, "so that's a great use of the money."

It's also a smart move to save part of your refund and have a buffer of cash to prevent the need for taking on more debt when emergencies strike. Many consumers may feel like the oft-repeated rule of setting aside six months' worth of expenses in an emergency fund is unrealistic. But people can also start smaller, by making sure they have at least \$1,000 in the bank for unplanned expenses, says Nick Clements, co-founder of MagnifyMoney.com, a price comparison Web site.

Some people may try to meet other goals, like setting aside one month's worth of expenses, or enough to cover one month of rent. They can then add to the savings account little by little over time."It's kind of hard to deal with an emergency with only a few hundred dollars," Clements said.

People who have rainy day funds can use the money to save for other goals, advisers say. Those who the money into an [individual retirement account](#) may qualify for a tax deduction for 2015.

Parents can use the cash to open a 529 savings account for their children's college education, says Scott Bishop, a financial planner with STA Wealth Management in Houston. A few thousand dollars is hardly enough to cover college tuition, but after opening the account, parents can set up automatic withdrawals to keep adding to the savings going forward. Even small monthly contributions of \$100 can add up over time, he says.

Those getting large refunds can also readjust their tax withholdings so that they can have fewer taxes pulled from their paychecks throughout the year, Bishop says. That money can then be used to make contributions to savings and investing accounts throughout the year, he says.

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