

Think You Might Get a Tax Refund? Wait Just a Minute!

According to IRS data, the average tax refund issued this tax season is \$3,263. If you're getting a large tax refund this year, you may be like many Americans and already have it spent before it arrives. But before that stash of cash burns a hole in your pocket, give serious thought to pausing before spending it. It can be tempting to splurge on buying new electronics or taking the family on a fabulous vacation. Given the economically challenging times we face, it may be time to take a more practical approach to a tax refund.

During the time between receiving your refund and deciding what to do with it, aka the "decision-free zone," take time to think about the options that make the most sense for you and your family, and give yourself space so you can make an intelligent decision when you're ready. Take yourself out of the psychology of spending "feel good" cycle where spending the refund in one fell swoop provides instant gratification.

Most taxpayers surveyed in a Jackson Hewitt survey say they'll immediately spend their refund on essentials like groceries, rent, utilities, and bills. If this is the case for you, then kudos for taking a rational approach to spending the refund. On the other hand, do you feel you're in more of a survival mode this year? If so, it may be a good idea to freeze the refund during the decision-free zone to avoid making an irrational decision.

If you, however, have been hunkered down, paying off debt, getting caught up on bills, and socking away money here and there in savings, you may feel like you're getting ahead with your finances. But, with so many options available, from paying bills and building savings accounts to investing it or remodeling an area of your home, how do you know what the best move is? Taking a practical approach, particularly this year, is a wise way to approach a tax refund.

What is your money mindset?

Your money mindset is the set of beliefs and attitudes you have about money that drive your decisions about saving and spending. Coming to grips with yours is essential for realizing how it influences the behavior that may be holding you back from reaching your goals.

Are you in survival mode? If so, consider these options for spending your refund:

- Boost (or start) your emergency savings fund
- Catch up on bills
- Pay your vehicle registration
- Pay your insurance in one lump sum (some companies have a 1-pay discount!)
- Buy essential uniforms for work or school

Do you feel you're getting ahead of your finances instead of behind them? Here are some ways you can keep the momentum going:

- Pay down high-interest debt
- Save for an upcoming expense
- Put it toward a home or car repair
- Buy what you need to make extra money—classes, certifications, licenses, etc.
- Give to a local charity
- Contribute to your retirement fund
- Seed a 529 educational plan
- Create an opportunity fund (saving for an opportunity that may come up later)

When you get lump sums of money, the absolute best thing to do with it is to make a plan. The plan might include using a portion to build up an emergency savings account, putting some toward debt, and taking an incremental amount to buy something small and frivolous for yourself. The key is to be mindful about how you'll spend sums of money before you have it. Then, plan your spending ahead of time when you're in a more rational state of mind.

