

## 6 Smart Ways to Spend Your Tax Refund

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Chances are you're about to come into a cash windfall.

So far, the average tax refund this year is \$2,740, according to the latest IRS statistics. That's not chump change -- and it comes in handy at a time when many consumers are trying to tackle their debts and save as much as they can each month. In fact, with so many competing priorities, figuring out where to spend your refund can be a bit overwhelming.

To help you decide, here are four ways you can use your tax refund to bolster your finances:

### **Create a Cash Cushion**

Conventional wisdom used to be that keeping three to six months' worth of living expenses in a savings account for an emergency was the way to go. But with today's unemployment rate at a 25-year high, you'll need an emergency fund that can cover at least six to nine months of expenses, the amount of time most laid-off people now need to get back on their feet, says Sheryl Garrett, founder of the Garrett Planning Network, an international network of fee-only financial planners.

Stash your savings in a safe and liquid cash account like an FDIC-insured money market savings account. For the best rates consider online accounts, like those available on HSBC Direct and Emigrant Direct, which currently offer 1.65% annual percentage yield on your cash. (Not bad considering that the federal funds rate is between 0% and 0.25%.)

### **Pay Off Debt**

Think earning 18% (or more) on your cash is impossible these days? Well, you can by wiping out your high-interest credit-card debt.

"A lot of people don't think of paying off credit card debt as a return on investment, but reducing the cost of borrowing is the equivalent of increasing the total return on your investments," says Michael Kresh, a financial planner in Islandia, NY.

The smartest debt-repayment strategy? Start with any department store cards you have since they tend to charge the highest interest rates of any consumer card -- often 22% or higher -- even for their best customers.

After that, tackle your highest-rate credit cards or the card with the lowest balance, which will give you the satisfaction of wiping out at least one debt entirely. (For more tips on beating debt, read our story. )

### **Fund Your Retirement**

By now, you're hopefully contributing enough money to your 401(k) to receive your employer's matching contribution. So consider investing some extra money in a deductible IRA, where (assuming you qualify) your contribution is tax-free but your withdrawals are taxed, or a Roth IRA, where you contribute after-tax dollars and withdraw your contributions and earnings tax free after you've held the account for at least five years and you're at least age 59 1/2.

You can contribute up to \$5,000 to a Roth or traditional IRA in 2009 or \$6,000 if you'll be age 50 or older by the end of the year. (Married couples who are filing jointly can contribute up to \$10,000 or up to \$12,000 if both spouses will be age 50 or older by the end of the year.) For help choosing an IRA, click here.

Using a traditional or Roth IRA to plan for retirement is especially helpful if your employer has eliminated or reduced their 401(k) match. According to Watson Wyatt, a human resources consulting firm, 12% of employers have already reduced their match and another 12% plan to do so this year.

### **Save for College**

During the past year, 529 college savings plans have taken a hit as the stock market plummeted. Still, these plans, which let money grow tax-deferred and allow for tax-free withdrawals when used for higher education, can help families pay for the increasing costs of college - especially if their child is 10 or more years away from attending. Over the long term, families who invest in 529 plans can earn returns large enough to keep up with the spikes in college costs. But, if a child is just a few years away from college, parents should consider a more conservative investment choice, like having FDIC-insured savings options within their 529 plans. (These aren't available in every state.)

**Invest in Yourself**

More than five million people have lost their jobs since December 2007, according to the Bureau of Labor Statistics. That's resulted in stiff competition for any job opening. Whether you're currently unemployed or worried about losing your job, it may be time to freshen up your resume, sharpen your interviewing skills, and even take an extra course or two to gain an edge on the competition.

Career coaches, for example, can help you with your resume, put together a portfolio of your work and practice interviewing and networking skills. A one-on-one session runs anywhere from \$100 to \$250 per hour, says Laura DeCarlo, president of Career Directors International, a professional career association in Melbourne, Fla. Long-term programs can run into the thousands of dollars. For the best result, seek coaches who come recommended, have practiced for several years, and are certified by an accredited association, like Career Directors International or those recommended by the American Society for Training & Development.

If you can't afford to fork over hundreds or thousands for a career coach, consider working with an "expert" at career web site Vault.com who can review and edit a resume and cover letter starting at \$199 and \$79, respectively.

**Splurge a Little**

Once you've set some of your refund aside in an emergency fund and tackled some of those pesky debts, consider spending some cash on yourself. Retailers of all kinds are slashing prices, so you may be able to get a great deal on that coveted designer dress or take that once-in-a-lifetime trip.

Hotels and airlines, for example, are offering bargain-basement package deals on some popular destinations, including Hawaii and the Caribbean. Even better, deals that would normally have expired by now are getting extended well into May, says Kelly Pelletier, spokeswoman for Kayak.com, a travel search engine.

Just try not to feel guilty while lounging on the beach. "Someone who's wealthy in retirement but lived a life unable to spend anything certainly didn't live a happy life," says Gary Schatsky, a New York-based financial planner. You can also think of your splurge as your own personal bailout package. After all, consumer spending helps the economy.

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