

Money Tips

May 2011

Smart Ways to Use Your Tax Refund

Tax day has come and gone, and for many Americans, that means tax refunds are also on the way. If you're expecting a refund this year, keep in mind that your refund isn't really "free money". In reality, Uncle Sam is paying you back for the interest-free loan that you provided during the year.

So, although it may be tempting to splurge on an expensive high-tech gadget or go on a shopping spree, in the long run, there are better ways to use that tax refund.

Consider these tips:

1. **Pay down high-interest debt.**

Work toward eliminating debt by paying off—or at least paying down—high-interest credit card balances. Reducing or eliminating debt can boost your credit rating and improve your monthly cash flow. Paying off credit card debt with your tax refund can also relieve some of the burden of carrying a heavy debt load this year. It's generally best to pay off debt with the highest interest rate first.

2. **Save for an important goal.**

Use a chunk of your tax refund to open an interest-bearing savings account at your local bank that will help you achieve an important goal

such as buying a car or home or paying for college.

3. **Boost your emergency fund.**

If you've had to dip into your emergency fund at all over the past year, your tax refund is a great way to rebuild it. Experts recommend having enough cash on hand to cover six to eight months of expenses in case of the unexpected. Your emergency fund should include enough money to cover all fixed expenses, including your mortgage payment, utilities, food, car payment and insurance.

4. **Make an extra mortgage or car loan payment.**

Consider paying off your mortgage faster or reducing the balance on your car loan with this year's tax refund. Reducing the loan balance on these larger accounts can also reduce your monthly payments or at least shorten your debt repayment period. Making a larger, lump sum payment toward a mortgage or car loan can also increase your net worth because you will be carrying less debt.

5. **Book a vacation early.** If you're considering taking a vacation this summer, plan as far in advance as possible to get some great deals on airline tickets, hotel rooms and



all-inclusive resort vacations. Booking early can save you money and stretch those tax refund dollars. Take some time to shop around for the best deals. Even though last-minute deals are out there, you can often score even better deals when you plan your trip at least three months in advance. Booking early will also give you time to pay off your travel before your getaway, reducing the chance that your vacation will wind up creating lingering credit card bills.

These tips are provided by the Iowa Bankers Association, representing banks and thrifts in the state.

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