

Best Ways to Use a Tax Refund

Over the past few years, the average [federal tax refund](#) has come to about \$3,000. That's not exactly chump change. With the filing deadline approaching, it's not too early to begin thinking about how you'll use a refund this year. Here are five pointers to keep in mind.

1. Pay down debt

It's not as much fun as booking a trip to the Caribbean, but cutting down the amount of debt you owe is one of the best money moves you can make. Outstanding loan and credit card balances can hurt your credit score, making it more difficult to get the best rates on new borrowing. If you're saddled with credit card debt, consider paying off the balance with the highest interest rate first.

2. Save for retirement

Whether it's a [401\(k\) plan or an individual retirement account](#), you'll do yourself a huge favor by starting to save for retirement or ramping up your savings rate. Although putting away 10% of your pre-tax income is a good starting point, you'll eventually want to approach 20%. [Compound interest](#) and investment returns help the money in these accounts grow, so you'll thank yourself once you retire.

3. Home improvement

If you're a homeowner, taking care of repairs around the house can be a great long-term investment. Just remember to be strategic when it comes to deciding what to fix. Replacing a garage door or installing a new steel entry door can be among the least expensive improvements, at less than \$2,000 each on average. But they can provide some of the best returns on the dollar in terms of the market value they add to your home, according to Remodeling Magazine.

4. Save for emergencies

Because it's best to leave money in retirement accounts alone so it can grow over the years, it's important to build a rainy day fund. This should consist of three to six months of living expenses, and the money should be readily accessible. You might be forced to use these funds when you least expect it, to handle medical emergencies or a broken down car that needs immediate repairs. A tax refund probably won't cover half a year's living expenses, so continuing to add to your emergency fund will help you hit your savings goal.

5. Focus on needs

As tempting as it may be to splurge on a new television, you'll probably end up regretting using your refund for anything that lacks long-term value. That includes vacations, shopping sprees and decadent nights out on the town.

If you consistently receive substantial refunds but never put them to good use, consider asking your employer to adjust what's withheld from your pay. That way, you'll avoid giving the government too much money and can use it to cover more pressing needs.

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