

FINANCIAL PLANNING, TAXES & FINANCE

## WONDERING WHAT TO DO WITH THAT TAX REFUND? ASK YOURSELF: “WHAT KEEPS ME UP AT 3AM?”



Seeing that last year’s average tax refund hovered above \$2500 (<https://www.irs.gov/uac/newsroom/filing-season-statistics-for-week-ending-december-second-2016>), (though in Wisconsin it’s a little less (<https://smartasset.com/taxes/the-average-tax-refund-in-every-state>)), you may well be expecting a hefty check in the next few months. But before you start Googling “Vacations in Veracruz,” consider finding some better ways to spend your tax return.

Especially if you’re among the 63% of Americans (<http://www.forbes.com/sites/maggiemcgrath/2016/01/06/63-of-americans-dont-have-enough-savings-to-cover-a-500-emergency/>), who don’t have enough savings to cover a \$500 unexpected expense, you can probably think of smarter—if not sunnier—ways to spend that cash. Face it: in the end, bolstering your financial security is guaranteed to lower your stress levels more than any week on the beach.

When you follow the tips below, spending your tax refund wisely doesn’t have to be all work and no play. And it’s guaranteed to make you feel good.

### First enjoy that windfall:

When you follow the “Windfall Rule,” says Certified Public Accountant Christine Stevick, a financial counselor and owner of [Madison Financial Counseling](http://madisonfinancialcounseling.com/default.html) (<http://madisonfinancialcounseling.com/default.html>), spending your refund wisely doesn’t feel like a total sacrifice.

Here’s how it works, Stevick explains: “Anytime you get a windfall, you get to blow 5%.”

That means for every \$1000 of your refund, you get to spend \$50 on something fun—take yourself out to dinner, sign up for a few months of Netflix, buy that camping gear that’s just gone on sale.

“But,” she says, “you are responsible for doing something good with what’s left.” And one of the best ways to determine how to spend that remaining 95% is to “ask yourself ‘What’s



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For some, alleviating financial stress means paying off debt above all else. For others, it may be carrying that debt and instead starting an [emergency fund](https://safetynet.com/blog/how-much-emergency-savings-need/) [https://safetynet.com/blog/how-much-emergency-savings-need/], or contributing to your retirement account.

The truth is, Stevick says, “all of those options are really valuable things to do. We are all different about what makes us feel better and what stresses us out.”

Once you know what’s best for you, here’s how to go about turning your tax refund into an instant stress reliever:

### Reduce your stress by reducing your debt

When you have multiple debtors, the general rule is to identify your highest interest debt and apply any refund to that. “For a lot of folks this is going to be credit card debt,” Stevick notes.

But sometimes that’s not the biggest stress buster.

“If you owe multiple people small amounts of money, another option is to decrease the number of people you owe,” Stevick says. If it makes you feel better, there is “real value” to going from having 11 debtors to, say, 7.

### Sleep better knowing you have an emergency fund

Even if you’re still carrying debt, Stevick says, “There is unquestionable value in having some cash around.” After all, 1/3 of responders to a recent [Bankrate survey](http://www.bankrate.com/finance/consumer-index/money-pulse-1215.aspx) [http://www.bankrate.com/finance/consumer-index/money-pulse-1215.aspx] said they would have to borrow more money to pay for a surprise expense anyway.

“Over the years I’ve seen that people who have struggled [financially] really do feel a lot better having an emergency fund, even if it’s small.” Sure, the ideal emergency fund would cover 3 to 6 months of your expenses. But for a lot of people, she says, “that’s pie in the sky.”

Instead, be realistic—and compassionate—with your expectations. How much would make an unexpected dental bill or furnace repair less jolting?

“For some, having \$2000 in savings is light years away from living pay check to paycheck.”

[Learn more about emergency funds](https://safetynet.com/blog/how-much-emergency-savings-need/) [https://safetynet.com/blog/how-much-emergency-savings-need/].

### Swing in the breeze on your safety net

Consider putting some of those funds toward supplemental unemployment insurance from [SafetyNet™](https://safetynet.com/blog/how-safetynet-works-income-insurance/) [https://safetynet.com/blog/how-safetynet-works-income-insurance/], as a hedge against unexpected income loss from a layoff or disability. For less than the cost of one night’s hotel stay on that beach vacation, you can buy real peace of mind for a year. [Here’s how SafetyNet works](https://safetynet.com/product-basics/) [https://safetynet.com/product-basics/].

### Send it to your sunset years

Finally, tucking that tax refund into a Roth or a traditional IRA (or putting a little more into the 401K at work) is a simple way to boost your savings in one fell swoop. What will accrue is likely to be worth far more than one week of vacation.

If you don’t already have an investment account set up, Stevick suggests you talk with your credit union or bank, look into online options (consider [Vanguard](https://investor.vanguard.com/home/) [https://investor.vanguard.com/home/] or [eTrade](https://us.etrade.com/home/) [https://us.etrade.com/home/]) and talk to an investment advisor.

### Remember: it’s all in your mind

It’s easy to think that a week on the beach is the fastest path to stress reduction. But when debt looms upon your return and your future remains uncertain, real peace of mind doesn’t come from a snooze in the sun.

So take a tip from the pros: Put 95% toward your real stress buster and spend the rest on a [tropical cocktail](http://www.food.com/ideas/15-must-try-tropical-cocktails-6167/) [http://www.food.com/ideas/15-must-try-tropical-cocktails-6167/] or two.

Cheers!

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