

# Outside-the-Box Ideas for This Year's Tax Refund

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Have you ever read a personal finance article that told you a smart use of your tax refund was to pay down debt or start an emergency fund? You've probably heard or read that advice plenty of times before, and I've probably even written an article like that at some point.

But this one is different—really. Read on for some outside-the-box ideas on what to do with your extra cash.

## 1. Invest in Some Really Smart Tax Advice

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About three in four taxpayers received a refund for 2017 and are expected to receive one for 2018. It may not be as large as last year's because of the changes in the tax law: As of Feb. 15, the average refund was down 17%, from \$3,256 last year to \$2,703, according to the IRS. All the same, it's an influx of cash. But before you start spending your refund, here's an important reminder.

"A lot of people believe their tax refund is free money they are getting from the IRS. Unfortunately, nothing could be further from the truth," says Ali Hashemian, president of Kinetic Financial in Los Angeles. "In reality, this is a refund of the amount overpaid in taxes throughout the year."

He advocates adjusting your withholding so you have more money throughout the year instead of getting a refund. You can fix your withholding by filling out a new W-4 form and giving it to your employer.

A tax refund isn't free cash from the IRS; it's money you should have had in your paycheck to spend during the year.

Doing the math to make your withholding (or estimated tax payments, if you're self-employed) more accurate might be more trouble than it's worth to you. Some people enjoy getting a refund, and some don't want to risk being penalized for underpaying. Making an intentional choice to get a refund is totally valid.

But if you're falling behind on bills during the year because your after-tax pay is lower than it needs to be, you should definitely adjust your withholding so you're only paying what you actually owe. It makes no sense to give the

government an interest-free loan while you rack up interest and late fees on bills you can't pay.

If you're daunted by the prospect of adjusting your withholding, one smart way to spend this year's tax refund is on some professional tax advice. Hire someone with legitimate credentials, such as an enrolled agent or certified public accountant, to calculate your tax withholding so you'll know what to put on your W-4—and have the confidence that the tax math is right and that you'll have the cash flow you need during the year.

Hashemian also suggests working with a financial professional who can prepare a tax forecast and advise on maximizing your tax deductions and reducing your future tax liabilities.

## 2. Celebrate 'Treat Yo' Self' Early

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Why shouldn't the day you receive your refund be the best day of the year? You don't have to wait until October 13. (In case you didn't know it, that's Treat Yo' Self day, so designated by the popular NBC sitcom *Parks and Recreation*.)

If your finances are a mess, you should clean those up first, says Morris Armstrong, an enrolled agent and registered investment advisor. However, life's not just about the financial bottom line. With all the stress people face, it can be smart to use an unexpected refund for something to benefit the body or the soul.

"There is nothing wrong with pampering yourself with a nice meal out, a weekend away, a trip to a spa, etc.," Armstrong says. "I say that as a person with expertise in the tax field as well as the advisory field. Sometimes, we need to focus on taking care of ourselves."

Just don't go as crazy as Donna Meagle and Tom Haverford did on *Parks and Rec*. You may not need clothes, fragrances, massages, mimosas, *and* fine leather goods. One of those should do it.

## 3. Shop with Cash

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Armstrong isn't the only financial planner who thinks it's OK to put your refund toward something that isn't strictly necessary.

A new couch, a new TV, or a seat on a flight to your favorite locale might not seem like smart ways to spend your refund, says Ashley Dixon, a certified financial planner at Gen Y Planning. "But these items may be goals for you, and using the cash from your refund is better than putting these items on your credit card," she adds.

While the standard advice to use your tax refund to pay off credit card debt, put the money in a Roth IRA, build up your emergency fund, or save for a down payment on a home is smart if you aren't already doing those things, it's a bit misguided because you shouldn't be relying on your tax refund as your main funding source for those items on an annual basis, she said. Tax laws are always changing, as is your tax situation. Make sure you aren't withholding more than you need to, and use the additional income in your monthly paycheck to fund your financial goals throughout the year.

#### 4. Use It to Dial Down Your Stress

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What if you really don't want to spend your refund? Don't just focus on what's the most financially prudent choice to make. Think about whether there's anything that keeps you up at night.

"A common question we run into with clients is, 'Should I pay down debt or should I invest my cash for the future?'" says [Lauren Podnos](#), a certified financial planner at [Wealth Care LLC](#). "The black-and-white answer is if you have a 4% interest mortgage and you are saving toward retirement in 20 years and are in a relatively aggressive portfolio earning, on average, 6% to 8% per year, then you still come out on top saving money over paying off debt."

That being said, is that the step that will make you feel the most calm and secure?

"Clients hire us to help alleviate the stress of conquering their finances on their own, so we also take their feelings into consideration," Podnos says. "In the same scenario as before, if the [client is sick over having debt](#) and it is keeping them up at night, then the question becomes less black and white. How much interest is it worth to sleep soundly? This is where financial software can fall short of understanding human emotion." If that's your situation, do pay down your debt and sleep better.

#### 5. Invest Tax Free

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Finally, Hashemian says, "the best thing a person can do with their tax refund is to invest that money in something that can grow tax-free. Some traditional tax-free options you should consider include [Roth IRAs](#) for retirement, [health savings accounts](#) for medical expenses, and [529 accounts](#) for educational expenses.

The money you invest in a tax-advantaged account can grow much faster than the money you put in a taxable account. Since you won't pay any capital gains tax in years when your returns are positive, you'll be able to keep more of your

money invested. Tax-free municipal bonds can reduce your tax bill further when you're already taking full advantage of retirement, health, and education savings accounts.

## The Bottom Line

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You can do whatever you want with your tax refund (if you get one). It's your money; you earned it. To make the most of it, consider putting some of the money toward a vacation or upgrading your living space if you've got your finances under control. Also, putting some of your refund toward tax advice and into tax-advantaged investments is rarely a bad idea.

To check the status of your refund, a faster alternative to calling the IRS is to use the Where's My Refund? tool at IRS.gov. The tax agency says it issues 90% of refunds within 21 days.