



Consumer Q&A: Don't blow tax refund on a shopping spree

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By Caryn Bilotta

Q: It's that time of year again. With the IRS deadline fast approaching, do you owe personal income taxes or are you getting a refund? If you are due a refund, what will you do with the money? If you owe, how are you going to pay your tax bill?

A: Whether you owe the IRS or are getting a refund, here are some tips:

For those getting a refund, consider your options before going on a shopping spree.

- First, make every effort to pay off high-interest credit card debt. Even if you can't pay the debt in full, you can put a large dent in the balance. Doing this will cut years off the time it will take you to pay off the credit card.

- Open an emergency savings account. Many people live from paycheck to paycheck and have to borrow money if a crisis occurs. Having an emergency fund allows you to use cash for unplanned expenses.

- Open an IRA. If you qualify, open a Roth IRA. Even though you don't get to deduct the contribution from your taxes, the Roth IRA provides a tax-free way to save for retirement. Save for college. Investing your refund for your children's college education will save you a lot in the long term.

- Make an extra mortgage or car payment. Making an extra payment (or two) will save you money in the long term. For instance, making one extra mortgage payment each year on a 30 year, \$100,000 loan at 6 percent interest would cut almost six years from the loan and save you \$40,000. Making one extra car payment each year on a 6-year, \$23,000 loan at 9 percent interest would cut eight months of payments from the loan and save you \$3,320.

For those of you who owe, the first thing you need to do is decide how you are going to pay.

- Research your options. Some options include a bank loan or an IRS installment plan. You'll pay interest on a bank loan and a processing fee and interest on an IRS installment plan. If you take out a loan to pay your tax bill, make sure you can live with the terms before you sign. Otherwise, you could incur penalties and late fees. You can make a bad situation worse by falling behind on your tax loan payments.

- You also can request a six-month extension of time from the IRS in which to pay. Keep in mind, you must still file your tax return by the normal April due date. The extension will be granted only if payment of your taxes will produce "undue hardship" on you or your family, which you'll have to prove to the IRS' satisfaction. You'll also have to provide statements of

income, assets, liabilities, and expenses for three months preceding the filing due date.

- You can use a credit card to pay your tax bill, but this can be costly. You'll pay a fee -- a percentage of federal or state taxes paid -- to third-party companies that process the transaction. Keep in mind, using a credit card when you can pay some other way is never a good idea.
- Something else to consider is that many people with large tax bills simply didn't withhold enough from their paychecks during the year. Still others sold stock and failed to budget for the capital gains tax. Correct both scenarios and avoid similar problems next year.

(Caryn Bilotta is manager of education services for Advantage Credit Counseling Service (dba Consumer Credit Counseling Service). For more information about the agency's services, visit www.advantageccs.org. If you have money or credit management questions, you can e-mail Ms. Bilotta at cbilotta@advantageccs.org. Please provide your name, address and daytime telephone number with all inquiries. Ms. Bilotta tries to reply to all inquiries, but she cannot always respond.)

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