

4 ways to put your tax refund to good use

By Odysseas Papadimitriou

California has a tax refund problem. But probably not the kind you think. Despite facing the country's 11th highest tax burden, Golden State residents receive the 10th largest average annual refund, at roughly \$2,900. That might at first seem like a good thing, but you have to consider where the money is going.

For starters, that hefty refund is proof California taxpayers give the federal government an annual interest-free loan of nearly \$40 billion, according to IRS data. Not only that, but you're also paying into an especially inefficient state bureaucracy, as California boasts the country's sixth worst taxpayer return on investment, according to WalletHub research.

So step one in approaching this year's refund should have nothing to do with spending. Rather, it should be to make the arrangements necessary to avoid one next year. Beyond that, there are a number of great ways to put Uncle Sam's giveback to good use. We'll highlight some of the best options below.

1. **Pad your safety net:** Far too many Americans have far too little saved to withstand job loss, a major emergency expense or an economic downturn. In fact, 92 percent of Americans fall short of even the most conservative age-based savings targets, according to the National Institute on Retirement Security.

As a result, the best application for your tax application is to stash it away for a rainy day (even though the real thing is few and far between for Californians). Such a financial safety net will act as insurance against unfortunate events

and can be easily converted to retirement savings if they don't come to pass.

2. **Pay off collection accounts:** The newest credit-scoring models stop considering collections accounts, both medical and otherwise, once they've been paid off or otherwise settled to the collector's satisfaction. So if you have a mortgage or auto loan in your near future, or otherwise need the best possible credit, biting the bullet and getting such accounts off your plate could produce immediate credit-score gains and thereby save you a lot of money on future borrowing.

3. **Reduce your credit card debt:** Nationwide, credit card debt is reaching dangerous levels reminiscent of the Great Recession. We racked up \$71 billion in credit card debt during 2015 alone, including a monster \$52 billion fourth-quarter buildup that dwarfed the totals for 2010 and 2011 combined, according to CardHub data.

Things aren't quite as bad in South Lake Tahoe, as the average resident with a credit card balance owes "just" \$5,576, compared to the national average of \$7,879. But that Lake Tahoe figure still generates hundreds of dollars in interest each year and should therefore be dealt with as soon as possible.

Your tax refund can take a chunk out of what you owe, itself producing considerable savings, and a zero percent balance transfer credit card can keep the saving-train going if you have good or excellent credit. Offers for 15-month zero percent financing with no transfer or annual fee exist, for example.

4. **Invest in your credit score:** The average South Lake Tahoe resident sports a credit score of 661.02, which is only in the 37th percentile nationally but is still considered "good." But good is not excellent, and your monthly mortgage, car loan, car insurance and credit card payments are the

proof.

Investing some time, effort and money into your score will not only help you save on all of the above, but it could even pave the way to a new job or apartment. Paying off collection accounts, getting current on delinquent payments and making sure you always pay your bill by the due date here on out will all aid your efforts.

At the end of the day, it's important to wisely allocate tax refund money. But it's also important not to be too hard on yourself if you don't. California is the 25th most financially literate state in the country, according to WalletHub, so you're generally in good financial shape.

Odysseas Papadimitriou is CEO of the personal-finance website WalletHub, which offers free credit scores, full credit reports, 24/7 credit monitoring and customized money-saving advice.