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I'm a Financial Planner: 8 Worst Things To Do With Your Tax Refund

6 MIN READ

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There's very little about [taxes](#) to get excited about, except perhaps when you realize you're getting a tax refund.

That sudden influx of cash can burn a hole in your checking account, and make it easy to spend on things or in ways that won't support your financial goals.

To help warn you away from wasting that refund, GOBankingRates spoke with two financial advisors, Jim Holtzman, president and CEO of [Legend Financial Advisors](#) and Josh Zimmelman, managing director of [Westwood Tax & Consulting](#) to explain [8 things you should not do with your refund, and a few you should](#).

Don't Park It In a Regular Savings Account

While you might feel that you're being smart by putting your refund into a savings account, Holtzman argued that this isn't the best use of a tax refund.

In a traditional savings account, Holtzman said, "If you're getting 1% it's a miracle, as opposed to a money market fund where you should be getting about 5% at this point."

He said that 2024 is an exceptionally good time to put money into high-yield savings accounts since interest rates are higher than they've been in many years.

Zimmelman added that a retirement fund (like an IRA), or another investment could also be a better place to put that money if you're planning to save it.

Don't Pay Down a Mortgage

Another way you might think you're being financially savvy is by using that refund to make an extra payment on a mortgage, but that might not be as smart as it sounds.

Holtzman explained, "Depending on when you got your mortgage, let's say your interest rate is 3.25% when you can earn 5% in a money market fund, it's better to just leverage your money that way."

Don't Buy a New Car

Holtzman sees clients often use their tax refunds to buy big purchases like a new car. While there's nothing wrong with buying a car if you really need one, he said, "You have to ask yourself why did you get the refund-is it a problem with how much you have withheld? It's not like your financial situation changed."

Zimmelman added, "[A] brand new car requires car insurance, registration fees, gas, repairs and general maintenance. It's also a depreciating asset that won't be worth as much in a few years."

Don't Treat A Tax Refund As "Free Money"

Many people treat their tax refund like extra money, or what Holtzman called "lottery syndrome," when really it came out of your own pocket in the first place. You need to be really clear with yourself about what your financial picture really is.

Don't Make Unnecessary Home Improvements

Another common way Holtzman sees clients use their tax refunds is to put them into home improvements.

"That could be a good thing, but depending on what it is, like landscaping, it might not improve the value of the home much," he said.

Don't Buy a Pricey Vacation

Discretionary expenses, like vacations, are another way people often spend their tax return without really thinking it through, Holtzman said.

"While it might be okay in some situations, there should be an honest evaluation of your finances," he said.

He suggested it's better to create a reserve fund that goes toward saving for a vacation, into which you put a little bit of money every month.

Don't Make Impulse Purchases

"It can be tempting to blow your entire refund on an impulse purchase, shopping spree, or expensive vacation but there may be more important things to spend that money on," Zimmelman said.

It also depends upon your current financial picture. "If you're already financially healthy, with zero debts, decent retirement savings, and a big emergency fund, then you can have a little fun with your refund," Zimmelman said.

"But if that's not the case, which it isn't, for a lot of taxpayers, you might be trading a little enjoyment now for a big headache later."

Don't Make a Loan to A Friend or Family Member

You should think twice before loaning your tax refund to someone else, Zimmelman advised.

"While your heart might be in the right place, if you're not financially healthy yourself, it's more responsible to use that money to help your own situation before you try to tackle someone else's."

Not to mention that lending money to friends and family can be risky and possibly damage the relationship, he warned.

Do Pay Down High-Interest Debt

Holtzman said that if you, like many people, have any high-interest rate debt, such as credit cards or loans, this is a great opportunity to knock some of that down.

Or, you could make a bigger contribution to a 401(k) or other retirement account, Holtzman said. "That can help you reduce taxes, and if your employer is matching your funds, you could leverage that, too," he said.

Do Build Your Investable Asset Base

There's a lot of moving pieces you want to think through when you get a tax refund, Holtzman said. "You do want to build your investable asset base, and it's better to do that early to let compounding interest help," he said.

Do Talk to A Financial Advisor

If you're unsure of where to put your tax refund, Holtzman advised you talk to a financial advisor. "You want somebody to brainstorm, bounce ideas off, and make you think a little differently," he said.

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