

10 Things to Do With Your Tax Rebate

Category : Money

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Whether you choose to spend or save the money Congress gives you, you should put it to good use.

Thanks to a government rebate, a check might be coming your way.

Now what? Treat yourself to an iPhone?

Not so fast.

The House of Representatives recently passed a bill that would provide tax rebates to approximately 111 million households as part of a \$150 billion economic stimulus effort—including \$100 billion in one-time tax rebates to individual taxpayers.

It includes a tax rebate of up to \$600 for individuals and \$1,200 for married couples, with an additional \$300 per child. That means a family of four would receive \$1,800 under the House bill.

The bill now goes to the Senate, where changes are likely to be made.

Under the current Senate version, all Americans would receive a \$500 to \$1,000 rebate as long as they earned a minimum of \$3,000 last year.

With either version, millions of taxpayers will be getting some money back later this year. That means you will need to consider the best way to use this money.

Here are five smart ways to spend this money and five more ways to save it so you can bolster your personal finances:

1. Spend to save

If you're going to spend the money, consider spending it in a way that will actually save you money in the long run.

Consider what items you can purchase that will pay for themselves and more over their lifetime.

If you are spending \$3 a day at Starbucks, for example, an investment in a \$400 gourmet coffeemaker that enables you to brew your own coffee can pay for itself in less than six months. Just be certain that you will actually use it and not simply have it sitting on your kitchen counter while you continue to buy Starbucks.

Another option would be to replace older appliances such as refrigerators, washing machines, dryers, or dishwashers with newer, energy-efficient models. For more information, check out [Energystar.gov](http://energystar.gov). Many newer models will pay for themselves over time with energy savings they provide compared with older models, especially if you're replacing models over 10 years old. Even if your older models are still in perfect working order, it can be worthwhile to replace them. Selling them to recoup a bit of money or giving them to a charitable organization for the tax write-off will allow the newer models pay for themselves even more quickly.

2. Quit a habit

One of the most effective ways to help your finances is to quit a bad habit, and a good way to accomplish that is to reward yourself for doing so.

If you have a costly habit that you have been trying to kick, use the tax rebate money as an incentive reward for reaching your goal. Earmark the money for something you truly desire, but only purchase it when you have kicked the habit.

If your goal is to stop drinking soda, for example, you can give yourself a small reward such as a dinner out each week you manage to avoid drinking it. Or, give yourself a large reward like a weekend holiday when you have been soda-free for six months. If you spend \$3 a day on soda, kicking the habit will save you over \$1,000 a year, so the reward will pay for itself many times over.

3. Home improvements

Not all home improvements are created equal. While most money put into a home will never be recouped, there are a number of improvements that can actually make your house more valuable when it comes time to sell.

Putting your tax rebate money toward such improvements as lighting, painting, and electrical repairs can produce over 100% returns on their cost when it comes time to sell, making this a good place to spend the tax rebate.

4. Invest in home energy

The average home uses about \$1,900 in energy every year, according to Energy Star, but much of this cost can be reduced with better home energy efficiency.

Call your local utility to see if it offers free or subsidized home energy audits. Alternatively, you can perform a home energy audit yourself. The audit will tell you the best places to spend your money, such as increasing insulation or replacing drafty windows and doors that will lower both winter and summer energy bills.

5. Educate yourself

One of the best ways to improve your career prospects and income potential is to continue to learn new skills. Be sure to check with your employer to see if it will pay for this training and education.

Some will, while others will pay only a portion or none at all. If you feel the skill is important for your career aspirations, paying for it yourself makes sense and can mean a higher salary and more career opportunities down the road.

While spending the money is one way to improve your finances, saving it can be another quality option:

1. Credit card debt

If you have credit card debt, paying down that debt should be the top priority for the tax rebate. This can make a large dent in your debt and supercharge your debt reduction plan.

The key is to remember that once the debt is paid off, you should keep it off and not build up the credit card balance again.

2. Use it for an emergency fund

With the economy on shaky ground, having an emergency fund in place is a must. Stick the tax rebate into a high-interest online savings account and have it in place for an unexpected emergency.

Maintaining a solid emergency fund is an important safety net, and while the tax refund won't fully fund an emergency account, it's a good beginning.

3. Retirement fund

If you haven't started saving for retirement, the tax refund gives you the perfect excuse to begin. This is especially true if you have a 401(k) plan at work that matches a certain percentage of your contributions that you haven't been taking advantage of. If not, open up an IRA and use the money to help fund it and help ensure that you have a nice nest egg when you reach retirement.

4. College fund

College costs continue to rise at a pace far greater than inflation, making saving for it even more important. The tax refund is a perfect opportunity to begin or increase your kid's college fund, especially since part of the refund is a bonus for having kids.

Setting up a 529 college savings plan with part or all of the tax rebate is a good opportunity to help fund your child's future education.

5. Investing account

While the minimum amount needed to open a mutual fund varies, many require a minimum of \$1,000 or more as an initial deposit to begin investing, although some charge less. If the initial deposit minimum has kept you away from investing in mutual funds, the tax rebate can be used to help get you started.

Whether you decide to save or spend your tax rebate, take the time to see how utilizing it can best help your finances down the road to ensure you get the most out of this one-time monetary gift.