Taxing times: Experts say avoid getting a refund -- but if you do, save it or use to pay down debt

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When it comes to a tax refund this year, think zero. It may seem nice to get a check from the government every year, but two Kansas State University financial management experts say that a person's tax liability should be as close to zero as possible.

"This means that when you file your tax return that you do not owe any taxes and you do not get a refund -- remember that the IRS is not a savings account," said Kristy Archuleta, co-director of the Financial Planning Clinic, a part of the School of Family Studies and Human Services in the College of Human Ecology. Archuleta is an assistant professor of family studies and human services.

"If you receive a large tax refund, you've loaned the government the use of your money throughout the year interest free," said Jodi Kaus, director of the university's Powercat Financial Counseling, a service for students.

Both Archuleta and Kaus said receiving a major tax refund means an individual needs to adjust his or her W-4, a form that tells an employer how much to deduct from each paycheck. The deducted amount is called the withholding, and by minimizing this amount, a person can increase his or her cash flow.

A W-4 form is typically one of the first documents an employee fills out in a new job. Kaus said if a person's financial situation changes, the form can be updated by contacting the human resources department at his or her place of employment.

In addition to reviewing withholdings, Kaus said people should also compare itemized versus standardized tax deductions. Itemized deductions are those that people add up on their own, whereas a standardized deduction is a lump sum that the government allows them to take.

"When you file your taxes, you can choose between itemized and standard deductions," she said. "You should use whichever deduction is greater. Itemizing your deductions can take time, but it can be worth it. Do your research to make sure you take every deduction allowed."

Archuleta agrees. She says it's important to always maximize the deductions and credits available. Some common tax deductions include tuition and fees, student loan interest, mortgage interest, charitable donations and medical expenses, if they are more than 7.5 percent of someone's adjusted gross income.

If a tax refund is received, the money can be used to achieve several different financial goals. However, whatever the money is used for, Archuleta advises people to be deliberate in their financial decision-making.

"Don't blow a tax refund on unnecessary items," she said. "Use it to build an emergency fund or pay down debt, especially high-interest debt. It can also be used for savings by contributing to a long-term investment tool, such as a Roth IRA for retirement or a 529 plan for a child's education fund. The money can even be saved for a large ticket item you are planning to purchase."

Kaus said students should also use their tax refund to start an emergency savings account or to pay down debt, especially if they have high interest credit card debt or student loans.

"If a student has unsubsidized federal student loans, an income tax refund could go toward paying the accumulated interest on those loans now, so that the interest doesn't get capitalized and added to the principal at the end, causing interest to accrue on interest," she said.

Provided by Kansas State University

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