

## Use Your Income Tax Refund Wisely

To many people, an income tax refund might be one of the largest single cash receipts for the entire year. Avoid the temptation to spend your refund on consumption items. There are several places you can invest the refund to enhance your long-term financial goals. You can pay off current debt, invest in the stock market, make home improvements, or invest in a pension plan for retirement.

Let's assume you will be getting a \$5,000 tax refund. The best return on your investment may well be to pay off current amounts you owe that have high interest rates. If you are carrying a credit card balance at 15% interest, a reduction in the balance is the equivalent of earning a 15% return on your money. Your \$5,000 payment will save you \$750 in interest expense over the next year. This is an outstanding return when compared to most other investments. If you leave the \$5,000 balance on the credit card and make only the minimum monthly payment, you can pay up to twice that amount in interest, depending on your interest rate.

A second choice might be to pay down the principal balance on your home mortgage. A \$5,000 reduction in a 4% thirty-year loan will save \$11,000 in interest expense over the life of the loan.

Consider putting the cash into your retirement program. Only one out of five Americans can retire with adequate resources to live independently. \$5,000 invested at a 6% compounding return will be worth \$28,000 in thirty years. Your retirement fund could grow to almost \$450,000 if you invest \$5,000 each year for thirty years at a 6% compounding return. Have you ever heard anyone say that they retired with too much money?

Interested in discussing your retirement financial needs? Call us toll-free at (888) 388-1040.

NOTE: This article is written to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Members: American Institute of Certified Public Accountants, Minnesota Society of Certified Public Accountants

### Willmar Office

331 Third Street SW, Ste. 2  
P.O. Box 570  
Willmar, MN 56201  
Phone: (320) 235-3311  
Toll-Free: (888) 388-1040

### Benson Office

1209 Pacific Avenue  
Ste. 3  
Benson, MN 56215  
Phone: (320) 843-2302

### Morris Office

401 Atlantic Avenue  
Morris, MN 56267  
Phone: (320) 589-2602

### Litchfield Office

820 Sibley Avenue N  
Litchfield, MN 55355  
Phone: (320) 693-7975

### St. Cloud Office

2351 Connecticut Avenue  
Ste. 110  
Sartell, MN 56377  
Phone: (320) 252-7565  
Toll Free: (800) 862-1337

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