

Your MONTHLY MONEY

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Your Tax Refund Could Fix Your Debt Problem – If You Use It Strategically

Before spending your refund, consider how it could strengthen your financial safety net.

The IRS just started processing tax returns at the end of last month. That means Uncle Sam will deliver refunds soon. How will you spend yours?

More than one in five taxpayers told Experian they planned to pay down debt during the last tax season. Only 9% said they planned to splurge. That gap suggests many people already view refunds as an opportunity to improve their finances, not just as extra spending money.

If you decide to put your refund toward debt or stability, how you use it matters.

Used strategically, a refund can reduce interest costs, stabilize your budget, or help prevent future financial setbacks. Here are a few ways to make it count.

Pay down high-interest debt first

For many households, credit cards are the most expensive debt they carry. High interest rates cause balances to grow quickly and stretch payoff timelines.

Applying a refund to high-interest balances can lower what you owe immediately and reduce the amount of interest that accrues over time. Even if the refund doesn't eliminate a balance, it can ease monthly payments and make progress feel more manageable.

If you're carrying multiple cards, targeting the highest interest rate usually delivers the greatest financial benefit.

Build a \$500–\$1,000 emergency fund

Paying down debt helps, but avoiding new debt is just as important.

Without savings, unexpected expenses often end up on a credit card. A modest emergency fund can cover common surprises like car repairs, medical bills, or urgent home costs.

Setting aside part of your refund creates a buffer that reduces the likelihood of borrowing the next time something goes wrong. That cushion can help protect the progress you're making elsewhere.

Use your refund to catch up on late bills

If you're behind on essential bills, a refund can provide breathing room.

Past-due rent, utilities, insurance premiums, or car payments often trigger late fees and raise the risk of service interruptions or negative credit reporting. Bringing those accounts current can immediately reduce stress and prevent further fallout.

Once bills are caught up, it's easier to assess what your monthly budget can realistically support.

Avoid tax refund scams

Tax season is also a peak period for scams, and refunds are a common target.

Fraudsters may impersonate the IRS, send fake emails or texts claiming there's a problem with your return, or promise larger refunds for a fee. The IRS does not initiate contact by email, text message, or social media, and it does not demand payment through gift cards or wire transfers.

Taking a moment to verify communications and using official IRS tools to track your refund can help protect money you're trying to put to productive use.

A chance to reset, not a cure-all

A tax refund won't solve every financial problem, but it can offer a rare moment of flexibility. For many households, it's one of the few times during the year when extra cash is available without taking on new debt.

Using that money deliberately – whether to reduce high-interest balances, build a small safety net, or stabilize overdue bills – can make the months that follow a little more manageable. The impact isn't about the size of the refund. It's about whether it leaves you in a stronger position than before.