Your tax refund check just arrived. What should you do with it?

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USA TODAY

Published 5:27 a.m. ET April 4, 2024 | **Updated 11:45 a.m. ET April 4, 2024**

Your refund check has arrived. You've already spent it, or saved it, several times over, but only in your head. Now, you must decide what to actually do with the money.

An income tax refund isn't like a regular paycheck. It's a one-time windfall. For many of us, it's the biggest paycheck of the year.

The average refund check issued by the IRS so far this year is $3,182, as of March 1.

As welcome as the cash may be, a refund isn't necessarily a good thing.

"It means you withheld more taxes than you owed throughout the year, effectively giving the IRS an interest-free loan," said Randy Bruns, a certified financial planner in Naperville, Illinois.

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Yet, "from an emotional standpoint, nearly everyone loves a tax refund," Bruns concedes.

Inflation is up. Credit card debt is surging. If you are in a position to choose how to spend your refund, count yourself lucky.

"For most Americans, that refund is spent before they receive it," said Jeff Jones, CEO of H&R Block. "They know they have bills to pay, and that's the priority."

Save your refund check? How? Or spend it? On what?

If you don’t have urgent bills to pay, then you must decide the fate of your refund check: Save it? How? Spend it? On what? Or a little of both?

On the save-or-spend question, some financial experts focus on the appealing logic of comparing interest rates.

Let’s say you have credit card debt with a sky-high interest rate of 20% or more. You also have a high-yield savings account with an enviable interest rate of 5%.

One of those rates is undeniably higher. To some experts, it’s a no-brainer: Spend your refund paying down the high-interest debt. The savings account comes second.

“Arguably, the first two priorities for additional funds should be paying off high-interest debt, such as credit card balances or personal loans, which can save you money on interest payments in the long run, and establishing an emergency fund to cover unexpected expenses like medical bills or car repairs,” said Laura Mattia, a certified financial planner in Sarasota, Florida.

If paying off high-interest debt is your top priority, you’d still be wise to save at least some of the money, said Liz Windisch, a certified financial planner in Denver.

“There are very few people who have an appropriate amount of emergency savings and are maxing out their retirement savings,” she said. “Always try to save some of the refund.”

Some experts say we should prioritize saving our refund over spending it.

“Invest it, in yourself or the markets,” said Catherine Valega, a certified financial planner in Boston. “Don’t spend it.”

'There is not a better time to save'

Saving rates are down. Meanwhile, interest rates on a range of savings products are the highest they’ve been in years.

“There is not a better time to save if you look at where interest rates are and the diverse options that people have,” said Arijit Roy, head of consumer segment and solutions at U.S. Bank.

As a rule of thumb, financial advisers suggest most Americans should aim to amass emergency savings to cover three to six months of expenses if not more.

“Start with padding your emergency fund, if you don’t already have six to 12 months' expenses saved,” Valega said.

That’s a lot of money, and not all of us manage to save that much. But, hey, it’s a goal.

If you choose to save, get creative. Certificates of deposit, money market funds and high-yield savings accounts all offer competitive rates.

“I would say that the worst thing you can do is leave your refund in your checking account,” Windisch said.

'High-yield savings' is no longer an oxymoron

Financial planners recommend high-yield savings accounts because that term is no longer an oxymoron. Banks are offering savings accounts that pay serious interest, often in the 4% to 5% range.

CD rates, too, are the highest they’ve been in a while. And money market funds can bring considerable rewards.

Once you’ve covered your emergency savings, consider maxing out your retirement savings.

In 2024, that means saving $23,000 in a 401(k) account, this year’s contribution limit. If you’re 50 or older, you can save an extra $7,500.

With an IRA, the type of retirement plan you manage on your own, the current annual limit is $7,000, or $8,000 for people 50 or older.

Even if you can’t max out your retirement savings, “consider using the refund to jumpstart your retirement savings,” Mattia said.

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If you spend your refund check, make it count

OK. You’ve paid off your high-interest debt and shored up your savings. If you still have refund dollars left, how best to spend them?

A tax refund is often a considerable sum. If you choose to spend it, experts say, make it count. Consider using the money to pay for an important project you’ve been putting off for cost reasons: Replace your roof or your furnace. Repair your car. Or, take a class and build some new skills.

“Some ideas might be to use the refund to make necessary repairs or improvements to your home, which can increase its value, or put toward furthering your education, which can improve your earning potential in the future,” Mattia said. “Both investments in your home and your human capital are smart investments since they both contribute to your financial security.”