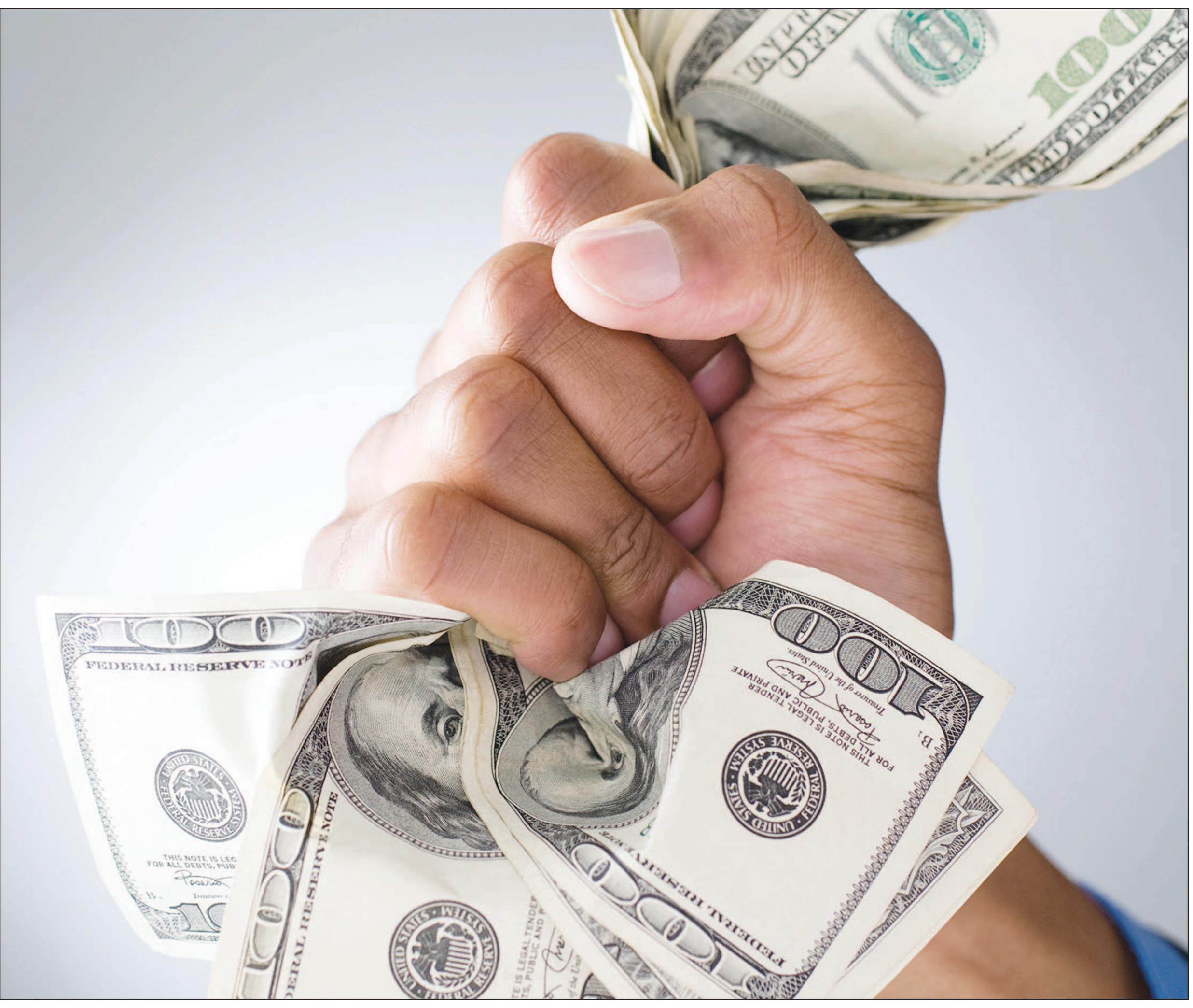
Tax time is here



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How to get more out of your refund

Income tax season is a happy time for many people. Those who anticipate a considerable refund on their taxes look forward to having extra money; some individuals even plan to finance big-ticket purchases entirely with their tax refunds.

Smart money management can turn a refund check into a nice nest egg or stretch dollars to make the most of this windfall of cash.

The following money-management tips can help anyone develop strong saving and spending habits that can pay dividends for years to come.

GET ORGANIZED

When looking to make the most of your tax refund, start by organizing your financial documents and getting a grasp on your spending and saving behaviors.

Examine your income-to-expenditures ratio to see where the majority of your money is going. It can be difficult to make significant changes with regard to your finances if you don't have ready access to your financial records and a strong appreciation of how your money is being spent.

PAY OFF HIGH-INTEREST LOANS

When addressing your finances, take inventory of any high-interest loans, including credit card bills. It will save you more money in the long run to pay off this type of debt as soon as possible.

The earlier such debts are eradicated, the less you will ultimately pay in interest. What's more, paying off debt helps establish a better credit record and score, which can make you eligible for lower interest rates in the future

Using a refund to eliminate debt is more beneficial than simply letting the refund sit in the bank, where it's likely to accrue less interest each month than the interest that accrues on your credit accounts with outstanding balances.

INVESTIGATE SAVINGS PROGRAMS

It is estimated that customers who don't have an account at a bank or credit union spend, on average, more than $800 at check-cashing businesses each year.

Opening up an account with a credit union or bank will immediately save you money on check-cashing fees.

Speaking with a banking representative can also provide information about various programs that will enable you to save your tax refund and earn money on it through interest accumulation.

In the National Retail Federation's annual Tax Returns Study, 40.2 percent of respondents said they planned to stash some of their refund in savings in 2013.

While traditional savings or checking accounts may offer nominal interest rates, longer-term certificate of deposits or money market accounts may yield more interest.

TALK TO AN INVESTMENT SPECIALIST

Your income tax refund may be just what you need to start investing.

A 2012 study by TD Ameritrade indicated 63 percent of respondents said they plan to save or invest at least part of the money they get back on their taxes.

A financial planner or stock broker can guide you through potential investments that carry the right portfolio and level of risk for your needs.

If you prefer to do the work yourself, many investment companies have user-friendly websites where account holders can manage their own investments and monitor the daily performance of those investments.

With the right investment, you can turn your refund into a substantial amount of money over the course of several years.

Stretching tax refund dollars means making smart choices regarding money management.

Rather than splurging tax returns on big-ticket items, use your refund to grow your savings, begin an investment portfolio or pay down debt.

Here are 6 ways to cope with paying the IRS

BY TINA OREM
NerdWallet

Finding the cash to pay a larger-than-expected tax bill can be tricky, but tax pros say there are ways to deal with the surprise without having to pawn the family heirlooms.

1. Take a deep breath. Though crimes such as tax fraud or evasion certainly can come with jail time, the IRS probably won't send you to prison simply for being short on cash, says Ken Portera, an enrolled agent in East Brunswick, New Jersey.

"They're going to send you a bill. I mean, it's as simple as that," he says. That bill will include interest and probably late-payment penalties , Portera warns. The IRS generally charges around 4 percent annual interest plus a monthly late-payment penalty of 0.5 percent on unpaid balances.

2. Still file your tax return on time. "That way, you're not going to be subject to failure-to-file penalties — because they are significantly higher than the failure-to-pay penalties," warns Melinda Kibler, a certified financial planner with Palisades Hudson Financial Group in Fort Lauderdale, Florida.

If you're not done preparing your return, get a filing extension by April 18. But take note: An extension gives you more time to file, not more time to pay.

3. Pay what you can right away. Because the IRS charges interest and failure-to-pay penalties on unpaid balances , sending even a little money with your tax return is better than sending nothing.

"If you can pay down more now, that means less interest and penalties as you scrounge together the rest of the money to cover the bill," Kibler says.

4. Look into a payment plan with the IRS. Not many people know these exist, Portera says, but they can show the IRS you're making an effort.

If you can pay your tax bill within 120 days, a full payment agreement might come in handy. It won't turn back the clock on interest or late-payment penalties, but there's no fee to set up the plan.

If you need more than 120 days and owe less than $50,000 in combined taxes, penalties and interest, an online payment agreement could be an option. The setup fees

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can run over $100, but they can be reduced if you establish automatic payments.

If you owe more than $50,000, you can apply for an installment agreement . Sometimes the IRS will even consider settling for less than what you owe in an "offer in compromise ."

Set up a plan that leaves you with some financial breathing room in case life gets in the way and you need cash for emergencies, says Lew Hurwitz, an enrolled agent in Petaluma, California. You can always send extra money if you have it, he notes.

5. Think twice about borrowing or raiding your 401(k). It might be tempting to pay a tax bill with a credit card so that it's done (and so you can get frequent-flier miles or other rewards), but the card's interest rate may be higher than what you'd pay under an IRS payment plan. Plus, the IRS charges a fee to pay with a credit card , Hurwitz says, "It really isn't worth it."

Raiding retirement accounts can trigger early withdrawal penalties , Hurwitz adds. Drawing on a home equity line of credit does buy time, and the interest can be tax-deductible , but getting a HELOC usually isn't free. Plus, it can create a temptation to overspend and run up the balance, Portera notes.

6. Make sure it doesn't happen again. For many people, avoiding a surprise tax bill can be as simple as adjusting their W-4 form, which they give to their employers instructing them on how much income tax to withhold from their paychecks. Increasing the amount withheld can help set aside more tax money for next year — "so you're not in the hole," Portera says.