

[Music]

Filing income taxes is an annual chore that few people enjoy - unless it results in a big refund.

But hold on a minute.

Is receiving a tax refund a reason to celebrate? Let's consider a few of the pros and cons.

First, the pros.

Pro #1: It feels like an unexpected windfall.

Receiving a large refund from the government each year can feel like an annual bonus or unexpected windfall - a nice sum of cash to spend however you want.

It's something to look forward to.

Pro #2: It can be put to good use.

A tax refund can be an ideal opportunity to pay down debt, build up emergency savings, or invest for the future.

It can help defray the cost of necessary medical expenses or home repairs.

Even if no major financial challenges exist, a tax refund can be used to invest in oneself by enrolling in a class, joining a health club, or taking a much-needed vacation to relax and recharge.

Now, let's look at some of the cons.

Con #1: It means you overpaid the government.

In reality, a federal tax refund means you paid Uncle Sam more than necessary during the previous year.

Your refund is a repayment of money that should have been yours in the first place.

Con #2: It might not be put to good use.

With an unplanned windfall in hand, it can be tempting to splurge on a shopping spree or a really pricey night on the town - activities that may feel great in the short term, but don't typically contribute to lasting financial stability or emotional well-being.

If you usually receive a refund each year, you might ask yourself whether it would be more beneficial to put that money to use when it's earned, rather than when it's returned.

If so, consider changing your withholding status at work to have less of your earnings funneled toward taxes each pay period.

And if you do adjust your withholding so you're taking home more each pay period, one way to ensure that your money is put to good use is by increasing the amount you contribute to your employer-sponsored retirement plan.

If your contributions are pre-tax, this move will also help reduce your annual tax obligation.

Taxes will be due eventually on those contributions and any earnings, but that occurs when you take distributions from your plan, likely in retirement.

If you have questions about adjusting your withholding or changing your plan contribution amount, contact your employer's human resources department.

[Music]