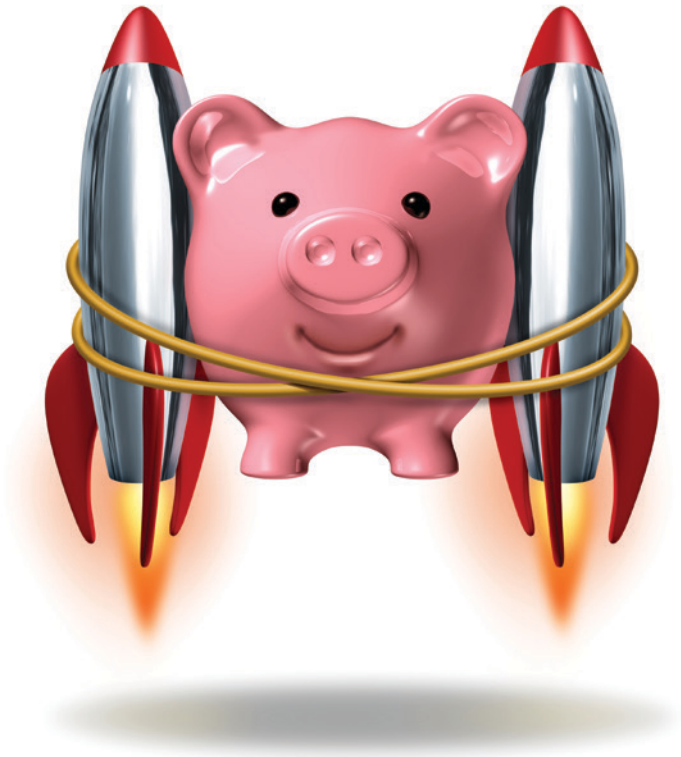

4 Ways to Boost the Profit of your Tax Refund

By Mary Wood, Wealth Advisor, RCB Bank Trust

Your tax return is a powerful tool to boost your financial well-being. This year, choose to stash your cash for your future self with one of these investment tools.

529 Education Savings Plan

Whether you are going back to school or saving for your kids, a 529 Education Savings Plan is a great way to invest your tax return.

Even grandparents and guardians can start a plan and give their loved ones the gift of reduced education costs. Not only is the investment growth tax deferred, both Kansas and Oklahoma offer tax breaks on contributions.

401(k) Plan

If your workplace offers a 401(k) plan, you should contribute regularly. If they match your contributions, invest at least up to the maximum match amount. Don't pass up free money for your retirement savings.

You can also contribute significantly more money to a 401(k) per year than with a traditional or Roth IRA. For instance, in 2020, the 401(k) contributions increased to $19,500 per year if you are under 50 and $26,000 if you are over 50.

Traditional IRA

A traditional Individual Retirement Account (IRA) offers similar tax-deferred advantages as workplace plan.

Your contributions are often pre-tax dollars and may be tax deductible.

Another advantage is tax free growth. This means once you put the money in the account, your earnings will not be taxed until you withdraw money in retirement.

There are certain minimum distribution requirements, meaning you have to start taking money out starting at 72 or there are penalties.

Traditional IRAs currently have $5,000 and $6,000 limits respectively.

Roth IRA

This is one of the most powerful retirement savings tools because your money can grow tax free.

You will pay taxes when you put money into your account, but your earnings and withdrawals are tax free, as long as certain requirements are met.

There are also certain conditions in which you can pull money out of your IRA and avoid the 10% early withdrawal penalty. This includes if you withdraw money because of a disability, are a first-time home buyer or if the withdrawal is made by a beneficiary after your death.

Another perk is you are not required to take minimum distributions from your Roth IRA during your lifetime, as you are with a traditional IRA. This makes a Roth a powerful legacy investment.