Raise Your Credit Score With Your Tax Refund Check

If you are one of the lucky ones that is getting an income tax refund, do not cash the check when it comes. Instead, let's look at a better use for the money, one that will pay a greater dividend to you in the long term.

We are talking about your credit score. In a nutshell, there are three credit reporting agencies in the US that keep close tabs on your credit history, your outstanding debt, your debt-to-income ratio and various other pieces of information. These agencies do not share information about you, so not one of them has a totally 100% accurate picture of your credit history, but that is what almost all lenders use to calculate your credit score.

Your credit score is used to determine your credit worthiness in the eyes of a potential lender. The average credit score in the US is around 660, and this is a number that can range from about 350 to around 850. The timeliness that you have historically shown in making your credit card payments, loan payments, and mortgage payments are reflected here. You get points subtracted for being near or over your credit limit on any accounts, and more points subtracted if you make late payments.

While there is much more that goes into calculating your credit score, you can use your tax refund to actually increase your credit score. Say you have a couple of credit cards that are pretty much maxed out, perhaps even over their limit. Pay off those cards or at least pay down the majority of the balance, which will in turn raise your credit score because your debt to income ratio will look that much better.

Many people just splurge on something when they get their income tax refund, maybe getting a new car or that huge new plasma TV or a kitchen remodel job done. But what good does that do you? Really, nothing in the long run, and paying down some of your credit cards or loans has a much greater long lasting effect, which is all to your benefit. You need to put that money where it will do the most good for you in the long term, not for a very short term benefit.

The average person in the US has 8 to 10 credit cards, although credit counseling will advise having no more than 2 or 3. If you only have 2 or 3 credit cards, then the temptation to max them out will be less, simply because your credit limits are not going to be that high to allow you to get into real serious trouble financially.

The credit bureau gives the most points towards your credit score for accounts that are paid on time, have never gone over their credit limit, and have an outstanding balance of between 20-25% of the credit limit. This gives you a comfortable margin for charging things that you need, but it does not make you appear to be living on the edge, as it would if you had credit card account that were consistently at 80% or more of your credit limit.

Put your income tax refund to work for you. The time and effort that you put into raising your credit score will pay off in spades for you in the future.

About the Author

For more insights and additional information about how to Raise Your Credit Score as well as getting free copies of your credit reports, please visit our web site at http://www.credit-help-center.com