

Federal Deposit Insurance Corporation (FDIC)**Money Matters**

Use this tip sheet to help you in the process of preparing, maintaining, and evaluating a personal budget. This tip sheet covers the following topics:



- Using budgeting tools to prepare a budget
- Using budgeting tools to maintain a budget
- Evaluating a budget:
 - Decreasing spending
 - Increasing your income
 - Prioritizing budgeting needs

Tip #1:

Use Budgeting Tools to Prepare a Budget

The following budgeting tools are available to help you prepare a personal budget:
(All items can be found by clicking the Budgeting Tools link on the MoneySmart page.)

1. Income and Expenses Worksheet

This budgeting tool will help you to list all your income and expenses so that you can anticipate and plan for both your needs and personal savings goals.

2. Daily Spending Diary

This budgeting tool will help you to see where you are spending your flexible income in order to plan for and/or make adjustments to your personal financial habits.

Tip #2:

Use Budgeting Tools to Maintain a Budget

The following budgeting tools are available to help you maintain a personal budget:
(All items can be found by clicking the Budgeting Tools link on the MoneySmart page.)

1. Monthly Payment Schedule

This budgeting tool will help you maintain a budget by recording financial responsibilities, amounts, and due dates in sequential order.

2. Monthly Payment Calendar

This budgeting tool will help you to maintain a budget by recording financial responsibilities, amounts, and due dates on a calendar.

3. Expense Envelope System

This budgeting system will help you to maintain a budget by distributing your income inside envelopes that represent your financial responsibilities.

4. Budget Box System

This budgeting system is helpful if you pay your bills with cash each month.

5. Computer System

This budget system will help you maintain a budget by setting up a spreadsheet on a personal computer.

Tip #3:

Evaluate Your Budget

An important part of budgeting is evaluating your budget to determine its success in accomplishing your financial goals.

Prioritize Your Budgeting Needs

Evaluating your budget consists of making sure your needs are prioritized correctly:

What payments should I make first if I don't have enough money to pay for all my bills?

1. First, pay off your necessary household expenses, such as rent or mortgage, utilities, and food, first. You need to pay your rent or mortgage to ensure you don't get evicted or have your property foreclosed upon. Think about the health and safety of your family when making these types of decisions.
2. Many utilities, such as the telephone company, electric company, and gas company, have programs to lower your bill if you qualify. If you think you need assistance, contact your utility company.

What should I do if I can pay off my monthly household expenses, but am having trouble paying off my loans?

1. Pay off the loan with the highest interest rate first to save on interest payments.
2. Talk to your creditor. Your creditor may be willing to reduce your payments or change the terms to accommodate your situation. Some creditors might offer extensions, smaller payments over a longer period of time. Some creditors might accept partial payments.
3. Get a debt consolidation loan. Be cautious of this option. If loan fees and interest rates are too high, it may not be the best option for you.
4. Get professional advice. Reputable credit counselors can help you deal with your financial problems. Some organizations charge little or nothing for their services.
5. Be cautious of companies that promise to fix your credit problems right away. Credit repair can be a long process that might take several years.

Decrease Your Spending

After evaluating your budget, you may find that you need to take more steps to meet your financial goals, such as decreasing your spending and/or finding ways to increase your income.

Here are some helpful tips for decreasing your spending:

- Carry only small amounts of cash in your wallet so you won't spend it.
- Use direct deposit. You will be less likely to spend money if it goes straight into your account.
- Control your use of credit cards.
- Don't go shopping just for fun.
- Take your written savings goals with you as a reminder.
- Buy only what you need—don't buy things just because they are on sale.
- Use coupons to save money.
- Use a grocery-shopping list to prevent impulse-buying.
- Take your lunch to work instead of eating out.
- Shop around to get the best deal for big-ticket items, like cars and appliances.
- Pay your bills on time to avoid late fees, extra finance charges, utilities being turned off, eviction, repossessions, and the costs of a bad credit rating.

Increase Your Income

A careful look at your budget may also cause you to reflect on ways that you can make your income stretch further. Use the following chart to see if you may be eligible to receive a tax credit:

| Tax Credit | What is this? | How do I qualify? | Where can I go for more information? |
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| <p>Earned Income Tax Credit (EITC)</p> | <p>A refundable federal income tax credit for people who work, but do not earn high incomes. If you qualify, it reduces the amount of tax you owe, and it may give you a refund. You may even be eligible for an advance EITC, which allows you to receive part of the credit in each paycheck during the year.</p> <p>Note: Any refund you receive as a result of</p> | <ul style="list-style-type: none"> • You must have a valid Social Security number. • You must be between 25-65 years of age, unless you have a qualifying child. • You must have earned income. This does not include alimony, child support, welfare benefits, unemployment benefits, interest, dividends, pensions, and certain workforce payments. | <p>Rules and examples can be found in IRS Publication 596. A free copy of the application form and the IRS Publication is available on the following web site: www.irs.gov or by calling the IRS at 1-800-829-3676, or you can call the IRS directly at 1-800-829-1040 for assistance.</p> |

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| | <p>taking the EITC will not be used to determine your eligibility for, or how much you can receive from, the following programs: Temporary Assistance for Needy Families (TANF) program, Medicaid and supplemental security income (SSI), and food stamps and housing assistance.</p> | <ul style="list-style-type: none"> • Children must live with you for at least 6 months to claim additional benefits. • You must file a federal income tax to claim the EITC. | |
| <p>Advance Earned Income Tax Credit</p> | <p>If you expect to qualify for the earned income tax credit (EITC), you may be eligible to receive part of the credit with your pay check now.</p> <p>If you qualify, complete Form W-5 and give it to your employer. Your employer will then add the advance earned income credit to your net pay each pay period you are eligible. If your situation changes after you give your employer Form W-5, you must give your employer a new Form W-5. For example, you should give your employer a new Form W-5 if you no longer expect to qualify for the EITC or you no longer want to get advance payments of the credit with your pay.</p> | <ul style="list-style-type: none"> • You must have a valid Social Security number. • You must have a qualifying child. • You must have earned income. This does not include alimony, child support, welfare benefits, unemployment benefits, interest, dividends, pensions, and certain workforce payments. • You must provide your employer with Form W-5. • You must file a federal income tax return each year. | <p>Rules and examples can be found in IRS Publication 596. A free copy of the application form and the IRS Publication is available on the following web site: www.irs.gov or by calling the IRS at 1-800-829-3676, or you can call the IRS directly at 1-800-829-1040 for assistance.</p> |

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| | Remember, if you receive the EITC with your pay, you must file a federal income tax return. | | |
| Child Tax Credit | The Child Tax Credit can lower the amount of income tax you owe and increase any refund you might receive. The benefit can be as high as \$500 per child. There are additional benefits for single working mothers. | <ul style="list-style-type: none"> • The child must be 17 years of age or younger by the end of the tax year. • The child must be a U.S. resident. | A copy of the tax credit application form and the IRS Publication is available at the following web site: www.irs.gov or by calling the IRS at 1-800-829-3676 or you can call the IRS directly at 1-800-829-1040 for assistance. |
| Credit for Child and Dependent Care Expenses | IF you pay someone to care for your child under the age of 13, or other dependent who is not able to care for him or herself, you might be eligible for a tax credit. The tax credit can lower the amount of income tax you owe and increase any refund you might receive. | <ul style="list-style-type: none"> • You must be pay the child or dependent care expenses so you can work or look for work. | Information is available in IRS Publication 503. A copy of the tax credit application form and the IRS Publication is available at the following web site: www.irs.gov or by calling the IRS at: 1-800-829-3676, or you can call the IRS directly at: 1-800-829-1040 for assistance. |