



Budget Check Up: Tax Time Is the Right Time

Every year, about 140 million households file their federal tax returns. For many, the process involves digging through shoe boxes or manila folders full of receipts; gathering mortgage, retirement, and investment account statements; and relying on computer software to take advantage of every tax break the code permits.¹

It seems a shame not to make the most of all that effort.

Tax preparation may be the only time of year many households gather all their financial information in one place. That makes it a perfect time to take a critical look at how much money is coming in and where it's all going. In other words, this is a great time to give the household budget a checkup.

Six-Step Process

A thorough budget checkup involves six steps.

1. **Creating Some Categories.** Start by dividing expenses into useful categories. Some possibilities: home, auto, food, household, debt, clothes, pets, entertainment, and charity. Don't forget savings and investments. It may also be helpful to create subcategories. Housing, for example, can be divided into mortgage, taxes, insurance, utilities, and maintenance.
2. **Following the Money.** Go through all the receipts and statements gathered to prepare taxes and get a better understanding of where the money went last year. Track everything. Be as specific as possible, and don't forget to account for the cost of a latte on the way to the office each day.
3. **Projecting Expenses Forward.** Knowing how much was spent per budget category can provide a useful template for projecting future expenses. Go through each category. Are expenses likely to rise in the coming year? If so, by how much? The results of this projection will form the basis of a budget for the coming year.
4. **Determining Expected Income.** Add together all sources of income. Make sure to use net income.
5. **Doing the Math.** It's time for the moment of truth. Subtract projected expenses from expected income. If expenses exceed income, it may be necessary to consider changes. Prioritize categories and look to reduce those with the lowest importance until the budget is balanced.

6. **Sticking to It.** If it's not in the budget, don't spend it. If it's an emergency, make adjustments elsewhere.

Tax time can provide an excellent opportunity. You have a chance to give your household budget a thorough checkup. In taking control of your money, you may find you are able to devote more of it to the pursuit of your financial goals.

Warmly,

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1. IRS.gov, 2023

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