# Budgeting on a fluctuating income

Crown Financial Ministries New Zealand

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One of the most difficult budgeting problems for people with fluctuating incomes is knowing how to allocate monthly spending when creating a spending plan (budget). Sources of fluctuating income are:

- salaries based on commission sales,
- employment on a casual or seasonal basis, or
- working different amounts of overtime or shifts each week.

The tendency for most is to spend the money as it comes in. This works great during the high-income months, but can cause havoc during the lower income months.

If you have variable income you can get trapped into debt. That occurs if you borrow during lean months and spend what you earn during high-income months rather than repay what you borrowed in earlier months.

There are two things to remember when budgeting on a fluctuating income.

<u>First</u>, always separate any business-related expenses, such as car maintenance, meals, or travel from household expenses. Separate day-to-day transactions accounts and savings accounts are essential. It's helpful to have a savings account for short-term needs and one for longer-term goals. A separate credit card for business expenses is advisable.

<u>Second</u>, estimate average annual income (use a low estimate). Divide the annual income estimate by twelve, and then develop a monthly spending plan around that amount.

**Have enough funds set aside**

One way to ensure that enough funds have been set aside to meet monthly spending requirements is to deposit all income you receive into a savings account. Each month withdraw your average monthly salary from that savings account. This levels out the months of high and low income.

This will allow surplus funds from higher income months to accumulate in the savings account to cover expenses during months of lower income.

If you begin the spending plan during one of the lower income months, you will have to delay paying some of the variable expenses. These include clothing, holidays, or gifts. These can be funded later when income allows.

The self-employed need to be extra cautious when developing their spending plan, because they need to set funds aside for tax. Failure to do this will require large outlays of funds when tax payments are due. That may have a detrimental impact for all other budget categories.

If you have debt, a debt elimination and money management plan needs to be established and implemented.

Allow no more debt, including bank and personal loans, and cut up the credit cards if you are unable to pay them off each month.

Develop a realistic spending plan that will allow every creditor to receive as much as possible.

Start paying off debt faster, beginning with the smallest debt first. Once the smallest debt is paid off, put the money you were paying on that debt into paying off the next smallest debt, and so on. Adjustments to this debt repayment order may be made for debts with the highest interest rates.

**Conclusion**

Planning is an essential element in any financial programme, but particularly so where income is fluctuating. In order to avoid experiencing a life of financial bondage, individuals and families need to establish spending plans and live within guidelines. Living within a spending plan will reduce or eliminate the burden of worry, frustration, and anxiety.

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