4 Smart Money Moves for 2021

With the new year in full swing, it's a great time to take stock of your personal finances. From building a budget and saving for retirement to getting a jump on this year's taxes, here are some of the smart money moves to consider to help brighten your financial life in the new year.

1. **Build a budget**

Creating a monthly budget can help you better understand your spending and identify how much money you can put toward your financial goals.

First, take your monthly salary or wages *after* taxes are taken out. Next, tally your necessary expenses for each month, including utility bills, mortgage payments, rent, transportation, debt payments, and groceries. Keep in mind that while some expenses will be fixed—such as your internet bill or car loan payments—others might fluctuate from month to month. For example, your electricity bill could be much higher in the summer if you run an air conditioner to beat the heat. Be sure to take these fluctuating amounts into account, using last year's bills as a guide to help you get a reasonable monthly estimate.

Now, subtract your necessary expenses from your income. What you have left represents the money you can earmark for discretionary spending. This is the pool of money you can draw on for savings, retirement accounts, or additional payments on debt. Set aside money for these goals first, and consider automating transfers to designated savings accounts and your retirement accounts. The money that's left over can be used for other purposes like travel, entertainment, restaurant meals, and hobbies.

2. **Set aside an emergency fund**

As you're planning your budget, be sure to set aside money for an emergency fund. Separate from your other savings, an emergency fund is the money you keep on hand to cover a sudden, unforeseen expense or loss of income. Aim to save enough to cover three to six months' worth of expenses. That way, you'll be better positioned to get through an unexpected car repair, an illness, or time spent job hunting after a layoff.

3. **Contribute to retirement accounts**

In 2021, you can make up to $19,500 in contributions to a traditional 401(k), or $26,000 if you're age 50 or older. You can contribute a combined $6,000 ($7,000 for those 50 and older) to Roth and traditional IRAs. Max out your contributions if you can. At the very least, contribute enough to workplace plans such as a 401(k) to receive employer matching funds if your employer offers them.

Contributions to a traditional IRA or 401(k) lower your taxable income in the year you make the contributions. That money can grow tax-deferred inside the accounts and is only subject to income tax once it's withdrawn after age 59 ½. Contributions to Roth accounts, on the other hand, are made with after-tax dollars, which can grow tax-free inside the account. Roths allow you to make tax-free withdrawals in retirement.

4. **Look ahead to next year's taxes**

If you received either a big refund or a big bill the last time you filed your taxes, you may want to consider adjusting your withholding on your W-4 to more closely match how much you'll actually owe in taxes. Withhold too little, and you'll end up owing money to the government. Withhold too much, and you're essentially giving the government an interest-free loan until they send your refund.

If you experienced any major life changes—the birth of a child, marriage, or divorce—bear in mind that they could have big tax consequences. For example, if you have a baby, you could be eligible for the child tax credit. If you get married or divorced, your filing status could change.

Keep track of your deductible expenses throughout the year. Document charitable contributions and business, education, and medical expenses to keep an accurate picture of what your tax liability will be.

Getting your finances in order early in the year can help you take better control of your money habits. And taking a close look at your income, expenses, retirement contributions and debt payments makes it easier to set reasonable goals—and to measure the progress you're making toward those goals.

SOURCES:

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https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-contributions#:~:text=The%20annual%20contribution%20limit%20for,your%20filing%20status%20and%20income.

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