

# money strategies

## Budgeting with a Roller Coaster Income

Having an uncertain or fluctuating income can seem like a roller coaster ride. One month you have enough money to do the things that you want to do, the next you may find it hard to pay basic living expenses. It can be a challenge to budget with this type of income but with a little planning, it can be done!



### Step One: Calculate Your Income

Maybe your work involves commission sales, seasonal employment, tips, hourly wages, self-employed or contract work. Whatever the reason for the fluctuation, if you can predict low income periods, you can start to plan your budget around them. If you're never sure what your pay cheque will be, then you'll just have to look at history to determine what income level to use for your budget. Look at your last year's tax return to estimate what you can expect to get this year. If you're afraid your income will not be as high this year, lower your monthly average by 10% so that you have a "safety net". As a way to check your estimated income, track your actual income for the next two or three months to see if your actual income matches your estimate.

### Tax Worksheet

<b>Gross (Before Tax) Income</b>	\$	<b>(A)</b>
Deductions		
Income Tax	\$	
EI	\$	
CPP	\$	
Other: Health, Disability, etc.	\$	
<b>TOTAL DEDUCTIONS</b>	\$	<b>(B)</b>
<b>GROSS INCOME minus TOTAL DEDUCTIONS</b>	\$	<b>(A - B)</b>
Divided by 12 = Average Monthly Income	\$	

### Tracking Worksheet

Tracking for a period of 6 or 12 months is ideal, but even tracking for 2 or 3 months will help. Add up your amounts and divide by the number of months to determine your average monthly income.

January	\$	July	\$
February	\$	August	\$
March	\$	September	\$
April	\$	October	\$
May	\$	November	\$
June	\$	December	\$
<b>TOTAL</b>	<b>\$</b>	<b>TOTAL</b>	<b>\$</b>



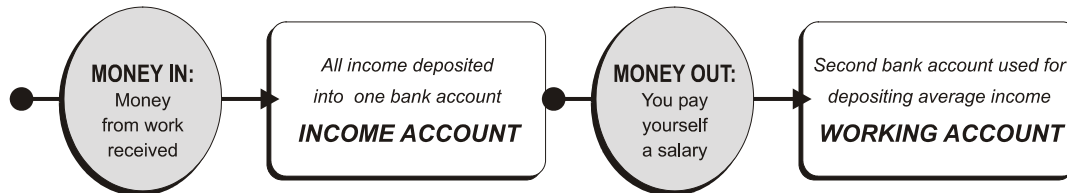
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## Step Two: Choose a Method for Budgeting

You've determined what you can expect your income to be; now you need to decide how to work with what you've got. Here are four ways that you can budget with a roller coaster income. We have made some suggestions about when each of the methods will work best, but you're the one who can decide which method, or combination of methods, will work best for you.

### 1) *Be your own Payroll Department – pay yourself a regular salary*

Use this method to control your income! First, open two bank accounts. The first bank account would be used to deposit ALL money received. Next, transfer your average income, calculated in step one, into the second account.



**WORKS WELL IF...** you are working with a commission salary, are self-employed, or receive money from contract work. In the months when income is higher you can build up the money in your income account. In the months when income is lower you can still transfer the same amount of money into your working account. With this “regular” income, you can choose the method that you feel most comfortable with to control your budget.

### 2) *Create Two Budgets – one for good months, one for lean months*

Create a budget that will serve your basic needs: housing, utilities, food, insurance, debt payments, etc. Use the income that you can expect to earn in the lean months to balance this budget.

Create a second budget that includes your basic amounts plus all your other monthly and annual expenses: clothing, gifts, school fees, entertainment, etc. Use the income that you earn in the good months to budget for your yearly expenses or to prepay some of your expenses. For example, you may get an annual pass at a recreation centre during your high income season so that you have an opportunity for recreation during low income months. Or, you may decide to pay your Alberta Health Care, or your life or vehicle insurance, for the whole year so that you don't have to worry about it during low-income periods.

**WORKS WELL IF...** you are seasonally employed and earn some income year round. In the months when you are working, you can save money for yearly expenses and possibly have some extra personal money. In the months when you are on reduced income (EI or another job), you have a budget that makes sure the bills are paid. A word of caution – try not to overspend in the good months! It can be tempting to buy what you feel you deserve when the money is good. But setting aside some money for the lean months can help you to stabilize your roller coaster!



### 3) Use Regular Income for Regular Expenses

Start by splitting your expenses into two categories. One category includes the expenses that must get paid every month; you decide what these are. You may want to list them by order of importance, for example rent, then utilities, then food, then morning coffee, and so on.

The second category includes expenses that are yearly expenses or expenses that vary and that you can control. Use your stable, regular income to pay your fixed expenses. Use fluctuating income for the yearly expenses and expenses that you can control. Remember you may need some of the fluctuating income to pay the monthly expenses, but you need to decide how much.



Monthly/Fixed Expenses		Yearly/Discretionary Expenses	
		Yearly	
Rent/Mortgage	\$	Clothing	\$
Utilities	\$	Gifts	\$
Food	\$	Registration fees	\$
	\$		
	\$	Total needed for the year	\$
	\$		
	\$	Monthly \$	
	\$	Personal spending	\$
	\$		\$
<b>TOTAL NEEDED</b>	<b>\$</b>	<b>TOTAL NEEDED</b>	<b>\$</b>

**WORKS WELL IF...** there are two sources of income to budget with. This could be a regular salary from a spouse and a fluctuating income from the other spouse. Use the regular salary for regular expenses and use the irregular salary for some monthly expenses plus yearly expenses. This method could also be used if you have a base salary and receive commission income or base wages plus tips. Use the base income for monthly/fixed expenses and the commission or tips for yearly expenses.

### 4) Finding a Regular Source of Income

If you are earning irregular income, you can decide to find some regular source of income. For example, if you work on commission, you might try to find another job that would allow you to have a consistent income every month. Remember to call the Canada Revenue Agency to see if you need extra taxes taken off your new job. Also, ask yourself if adding another job will add costs to your budget. Will you increase transportation costs, childcare costs, meal costs by taking this new job? After all, the reason you take on extra work is to earn more money, not **spend** more money!

Now that you have a plan in place, make sure that you also plan for the possible dips in the roller coaster.

The next section outlines some things to watch out for.



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## Step Three: Expect the Unexpected

- **Taxes** If you are earning irregular income you may be responsible for the deduction of your income taxes. This means that you need to save for your taxes and pay installments quarterly, so now is the time to start a tax account. Discuss this with Canada Revenue Agency or a tax accountant.
- **Business Costs** Remember, when you are creating your budget you may need to include business costs that you are responsible for paying. For example, if you are a day home provider you would include food, activities, and transportation costs.
- **Save for Yearly Expenses!** Whichever budget method you decide to use with your fluctuating income, try to build a savings for vehicle repairs, house repairs, gifts, clothing, etc. When these expenses come up, you need the cash to pay for them. If you think you'll be tempted to spend the money you save, try putting your savings into a separate bank account for which you have no debit card access. There are lots of other temptation-proof ways to save: you can buy Canada savings bonds that can be cashed in when needed; or you can set up an automatic transfer to a money market mutual fund that is secure, and that allows you access to the money within 24 hours.

If you think that saving will be difficult, try buying those once-a-year items on a monthly basis to spread things out and reduce the yearly expenses. For example, pay insurance monthly, buy one gift per month for special occasions, buy one piece of clothing per month, or buy school supplies slowly starting in June.

