How to Create and Master Your 2023 Budget

This will be the year you stick to your budget. Here's where to start.

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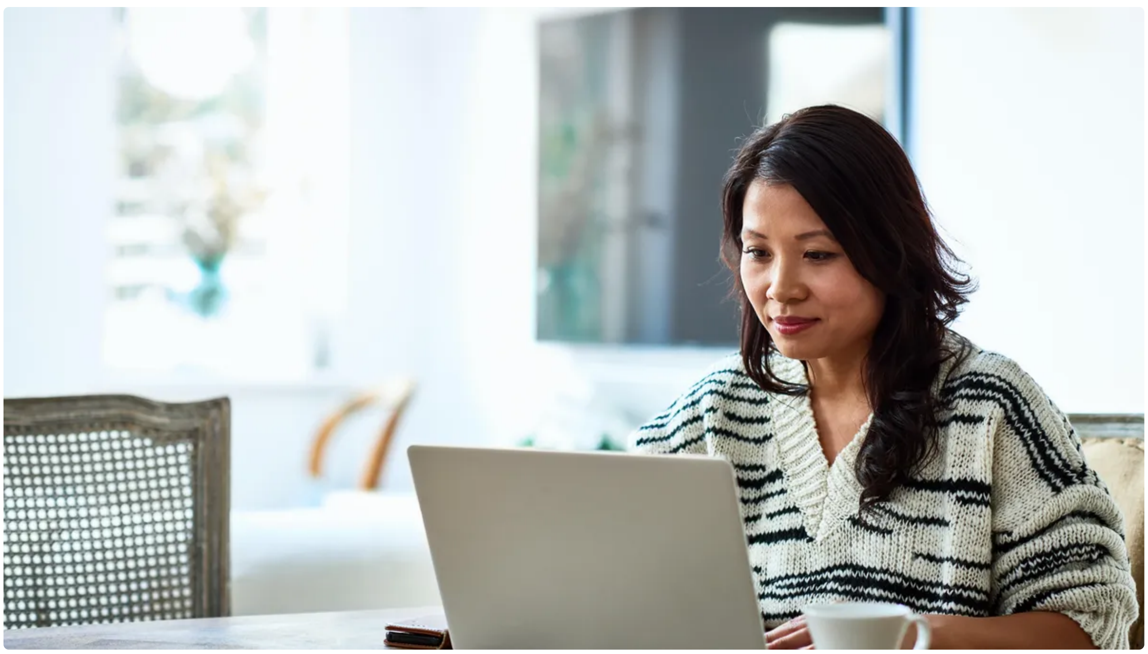

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Your budget is the lifeline to managing your expenses. Without a budget, you'll have a more challenging time keeping track of where your money goes -- and whether you're spending more than you're earning.

Budgeting is essential during periods of inflation because rising prices can increase the daily cost of living. Unless you pay attention to how much you're earning, spending and saving, you could lose more money than you realize, making it more difficult to save for long-term financial goals such as homeownership or retirement. Without a realistic budget, you might be more likely to accumulate credit card debt.

There's never a wrong time to create a budget, or check to ensure your current budget is in tip-top shape. Whether you track your income and expenses on a spreadsheet or use one of today's best budgeting apps to maximize your savings, here's how to set up or improve your budget for the new year.

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Calculate your income

A reasonable budget begins with income. Start by calculating the money you receive on a regular basis, such as your paycheck. Then add in any other sources of income you receive, be it checks from freelance work or cash from a side hustle. If you anticipate earning a tax refund, a company bonus or a financial gift from a loved one, add that to your budget as well.

Here are three tips to help you calculate your income as accurately as possible:

- **Track your anticipated income on an after-tax basis.** If you receive a paycheck from your employer, your taxes will already be taken out. If you receive freelance income, subtract your estimated tax payments before you start budgeting.
- **If your income fluctuates monthly, use last year's earnings as a guide.** Some people divide their annual post-tax income by 12, giving them a monthly figure to budget from. Other people plan ahead for variances in cash flow, especially if certain months always bring in less income than others.
- **Recalculate your anticipated income every three months.** By doing so, you'll be able to manage any changes that may take place over the next year, whether you earn more, less or exactly the same as you anticipated.

Estimate your expenses

Once you've calculated how much money you can anticipate earning in 2023, it's time to start thinking about how much you'll spend. You can begin by creating a budget line item for every major monthly expense, such as:

- Home payment (rent or mortgage)
- Utilities (electricity, water, cable/phone)

- Insurance
- Car loan
- Student loans
- Personal loans

Once you've determined your fixed monthly expenses, consider your variable monthly expenses. These are the items you buy regularly, even if you don't spend the same amount of money every month. Consider adding:

- Groceries
- Clothing
- Entertainment
- Dining out
- Travel
- Gifts
- Charitable giving

Some people divide these line items even further. Instead of having a single budget category for entertainment, for example, you might choose to have separate categories for books, music, movies, concerts and streaming media. Consider where your money goes and include budgeting categories for anything you purchase often.

At this point, you can begin estimating your anticipated monthly expenses. Some monthly expenses, such as rent, are nearly always the same amount. Other expenses, such as groceries, may differ, but you can use your bank and credit card statements to calculate the average amount you pay every month and add those numbers to your budget.

At this point, you should have a rough idea of how much you plan to earn in 2023 and how much you plan to spend. Next, think about financial goals.

Set your financial goals

Take a look at your anticipated income and expenses for the following year. Will you have any money left over, or do the numbers suggest that you might spend more than you earn? If your estimated expenses exceed your anticipated income, your first financial goal should be to earn more money. You may also want to cut back on your spending, whether that means canceling a few streaming services or consolidating your debt.

Once you've adjusted your budget to allow for a little financial wiggle room every month, you can start thinking about your long-term financial goals. Many personal finance experts suggest creating an emergency fund to cover up to six months' worth of expenses. That way, you'll be able to handle unexpected costs, including an unexpected period of unemployment, without going into debt. You may also want to set aside money for a new car, a new home or a long-overdue vacation, or use your extra money to begin investing.

Setting money goals early on might feel overwhelming if you've never created a budget. Don't worry if you want to skip this step and return to it later. You can always set up your budget today and establish your financial goals later in the year, especially after you gain real-time experience tracking your budget.

Track your progress and make adjustments

Once your anticipated income, expenses and goals are in place, it's time to begin the most crucial part of budgeting: tracking your progress and making adjustments.

Tracking your progress is relatively simple. Every time you earn money, spend money or put money towards a financial goal, update your budget. Some people do this by hand, but you can also use a budgeting app such as Mint or You Need a Budget to automatically sync your bank and credit card accounts. Many budgeting apps also send you notifications when you're about to exceed your estimated monthly expenses, which might keep you from spending more than you can afford.

As you track your progress, start making adjustments based on what you learn. If, for example, you always treat yourself on payday, ask yourself whether the treat is worth it or whether you'd rather put the money toward your summer vacation. If you tend to overspend your clothing budget, ask yourself whether you should cut back on new clothes or whether you should cut back somewhere else.

Tracking your progress in real-time is especially important during periods of rising inflation. You could buy the same groceries this month as you did last month, for example, but your grocery bill might still go up. Once you compare your actual expenses to your estimated ones, you can cover a higher-than-anticipated grocery bill by spending less on entertainment or travel.

You can also use your budget to avoid costly financial mistakes. Consider setting up automatic payments on your utilities, credit card bills and other monthly obligations. That way, you won't fall behind on your financial responsibilities and won't risk damaging your credit score. You may also want to begin automatically depositing money into your savings or investment accounts. As long as you keep your budget balanced, you can pay yourself first and not worry about overdrafts, and you'll be that much closer to reaching your financial goals.

Explore different budgeting plans

Even though a strong budget app or method is essential, you should have a specific budgeting plan in mind. Here are a few examples.

Zero-based budget: This method is when you give a purpose to every dollar you have. You take your monthly income and assign every dollar to something. If there's any money left over, you can decide how it should be used, be it for paying off extra debt, saving for an emergency, an upcoming vacation or investing. At the end of every month, your bank account should have zero dollars in it.

Envelope system: This is an old-school method that's evolved into such app forms as Goodbudget. Under this system, you set a limit for each spending category. For example, you might cap your grocery spending to $200 each month. Once you've spent all the money in that category, you can't add more to it. The purpose is to help you avoid unnecessary spending. When it comes to groceries, you might total up your cart in the store before checkout, rather than grab what you want. That way, you're not surprised by the total amount and keep your spending in check.

The 50/30/20 budget: This method breaks down spending into three components: needs, wants and debt repayment or emergency savings. Your needs represent 50% of your budget and cover such things as home and car payments, utilities, and paying for anything that has a required amount due every month. The 30% allocation represents wants such as dining out, travel and subscriptions. The final allocation, 20%, is devoted to paying off debts and/or building up saving for an emergency. You can also use this allocation to save for other things such as a child's education, investments or a big expense.

The bottom line

If you've never created a budget, 2023 is your year to start. Not only will you have a guide to help you make earning, spending and saving decisions, but you'll also have a tool to help you combat inflation's rising costs. You can set up a budget with pen and paper, create your budgeting spreadsheet or use one of today's best personal finance apps as you get started.