

# How to Budget on an Inconsistent Income

**An inconsistent income can make budgeting difficult since most traditional budgeting practices rely on making sure your spending doesn't overtake your income. If you don't have a set monthly income, how do you navigate your spending and budgeting habits? These tips can help.**

## 1 FIGURE OUT WHAT YOUR BASELINE MONTHLY EXPENSES ARE

The first thing you need to do is figure out what your basic living expenses are each month. These are items you have to pay each month, no matter what. Common essential expenses include:

- Rent/Housing
- Utilities
- Food
- Transportation
- Loan payments
- Medical bills or insurance

Your list might look different but be sure to be thinking about your priorities when coming up with your list of essential expenses. Once your list is complete, add up the total monthly cost of each expense—that's your baseline. If one of your expenses is variable (like a grocery bill), tally their total cost for the year and divide by 12 to get an average.

## 2 CALCULATE THE MONTHLY AVERAGE OF YOUR DISCRETIONARY SPENDING

Discretionary items are things you can spend money on but aren't essential. Look back at your previous bank statements to find out what you're spending on average on these expenses monthly. Discretionary spending can include:

- Clothing, shoes, and accessories
- Holiday and birthday dinners and gifts
- Take-out meals and coffees
- Gym memberships
- Video games

Once you know your discretionary spending, you can determine where it will be easy to make cut back to stay more budget. Even the slightest adjustments can make a difference!

## 3 PLAN TO SAVE AND BUILD AN EMERGENCY FUND

When you have an inconsistent income, it's even more important to prioritize building an emergency fund. An emergency fund is typically used for unexpected expenses, such as getting sick or totaling your car. Ideally, this fund should cover six months' worth of expenses, but not everyone can reach that goal realistically. Even if you can't put a lot of money towards this, funding your savings as if it were a monthly bill is a great way to get started.



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#### 4 DETERMINE YOUR AVERAGE INCOME

With an inconsistent income, the law of averages is your best friend. Some months are better than others. That's why the best strategy is to live on your **average monthly income**. Simply determine your income for the year and divide by 12. Use this number as your "monthly" salary.

#### 5 SAVE THE EXCESS

When you do have an unexpected excess (a tax refund, profit from selling something you're not using, or a monetary gift from a friend or family member, etc.), add it to your savings. With an inconsistent income, it becomes even more important to save the extra money you find yourself having. Prioritize saving so that the slow months are a little bit easier.

#### 6 TRY A ZERO-SUM BUDGET

By budgeting for expenses, savings, and an emergency fund, you can budget for every dollar, so at the end of the month, your balance is 0. Refine your numbers as you need to, but be sure to get started. If you come up short, look to your discretionary spending. You may not be able to knock this out of the park on your first month, but take it one month at a time. Remember, time flies and a month is only 4 weeks.

*Budgeting on an inconsistent income can be difficult, so be sure to manage your spending as much as possible. If you need any extra help with budgeting, please contact the Ovrxtnd Foundation, and we'll be happy to help.*