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# Organize Your Finances for the New Year

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A new year brings a chance to start fresh with just about anything. If your midnight toast includes a resolution to improve your financial health, here's how to make it happen.

## Get on a budget

To get ahead, it's important to know where you stand and to [create a plan](#) with realistic goals such as a comfortable retirement, education and home ownership. Budgeting may sound old-school, but it's still one of the best ways to accomplish this. Start by totaling your income and subtracting your monthly expenses for a quick financial snapshot. Then set goals, reduce unnecessary spending and, if the situation calls for it, explore ways to increase your income.

Budgeting doesn't have to be time consuming or complicated. Downloading a budgeting app to your smartphone lets you track spending and financial progress effortlessly in real time. To take the work out of saving toward your goals, you may also want to sign up for an automatic plan that electronically deposits an amount you choose from your paycheck or checking account into your savings account at regular intervals.

## Prepare for the unexpected

Life can throw you some scary curveballs. Challenges like job loss, medical issues or property damage can leave you drowning in debt for years if you're not prepared. That's why it's essential to [build an emergency fund](#) that can cover at least three to six months of living expenses. Even if you can save only a little each month, with consistent deposits and compound interest you can eventually grow a sizable protective cushion.

## Break free of debt

Making just the minimum payments on major debts means you're paying mostly interest and barely even chipping away at balances. One effective approach for eliminating debt is to concentrate your efforts on your highest-interest balance first, while still making timely smaller payments on all other obligations. Once this first debt is paid off, focus on the most expensive remaining balance, and continue this way till you're debt free.

When multiple debts are truly out of control, debt consolidation may provide some relief. This makes it easier to pay off debt faster and more affordably by streamlining multiple debts into one single lower monthly payment. Debt consolidation options include home equity financing, personal loans and zero-interest credit card balance transfers.

## Maximize tax deductions

Researching tax deductions and gathering appropriate documents can help you avoid paying more tax than absolutely necessary. You may qualify for tax breaks including:

- Interest deductions for mortgages, home equity financing, business financing, student loans and loans for boats with living quarters.
- Deductions for other taxes paid, including sales tax, foreign taxes and self-employment tax.
- Home office and business insurance deductions.
- Deductions for monetary and nonmonetary charitable gifts.
- Pre-tax [contributions](#) to traditional IRAs and 401(k) plans.
- Lifetime learning credit.

## Re-evaluate your investments

Life conditions change over time, so it only makes sense that investment and [retirement](#) accounts should be adjusted periodically. In early years, it's beneficial to favor an aggressive mix of securities, but as retirement approaches, gradually shift toward more conservative choices like bonds, CDs and mutual funds. It's also smart to examine your estate plan and make sure your will, insurance policies and beneficiaries are up to date.

Financial housecleaning kicks off the new year just right. Over time, things that seemed out of reach become affordable, and every unexpected expense won't seem like the end of the world. This change may be gradual, but by the next New Year's Eve toast your improved financial wellness will be something to celebrate.

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