



## *How to Pay Off Christmas Debt*

*Now that the tinsel dust has settled and the buzz of Christmas is over, you might find you're suffering from a proverbial financial Christmas hangover. Your credit card is maxed. You're all cashed out. Your after-pay limit is crushed - and Santa didn't leave any extra cash in his sack to help you pay it all off.*

If Christmas has left you in debt, it might not be easy, but there are ways to ease the pain.

### **Pay It Off**

The best way to afford Christmas is planning for it before Christmas occurs. It's one of the large expenses in the year that you know is coming so there are no excuses about it being unexpected. Setting up a saving budget during the year will ensure you won't have to find the extra when the time comes. Setting aside as little as \$20 a week can amount to a considerable savings pot for a stress-free Christmas. In fact, setting \$20 aside for the year will net you \$1,040! That's money you won't have to find.

**Pro Savings Tip:** You don't have to go it alone. If you're not sure how to set up a budget, an ITP financial advisor will get you started. Not only that, they'll help you set up a long-term savings goal for your future and into retirement – not just Christmas.

Pay off your debts in chunk sized pieces so you're not overwhelmed with a large bulk payment. Set aside a percentage of your wage or salary and set up an automatic payment throughout the month to

make sure you're not caught with extra fees for late payments. Pay off your highest interest payment first. Money spent on interest is wasted money.

If your debt is considerable, it might be worthwhile setting up a low interest credit card, or bank loan to help consolidate your debts. This can reduce your overall interest charges and enable you to prioritise paying your largest debts first. It's also generally easier to manage debt on one card than spread across multiple cards and accounts. This will also enable you to have a clear understanding of where your expenses are going. It's best to seek financial advice before you do this so you don't jump from the Christmas pudding right into the cracker.

### **Limit Other Spending**

It's not fun paying off debt, but it's also less fun paying off more debt. Setting up a budget and analysing your expenditure will show you where your expenses are coming from and highlight ways you can cut back. This might mean that you get one less takeaway meal per week, or you can choose a budget activity instead of a high cost one. It doesn't mean going without. You'll still have fun and your pocket will love you for it just as much as Santa's reindeer.

**Pro Savings Tip:** A budget app or your bank app will have features where you can set up to show your spending. Allocating your expenses will pay off at tax time. People that keep on top of their expenses and keep their receipts often get better tax returns –

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money that will also help pay off your debts!

Analysing your expenses may unearth costs you never knew you had. That subscription you pay but never use? Stop it. That membership you're a part of but never go? Cancel it. Consider using the 'Trim' app. This free app can help save you money by linking to your bank account and finding subscriptions no longer in use. Once it finds them, you can cancel them and in some cases negotiate a lower fee on your behalf. If you're proactive about your spending, you'll be better equipped to manage your finances.

## Reduce What You Already Pay

The New Year is a great time to phone around and seek better deals on your monthly costs. Companies offer great deals at this time on phone and internet charges, health, car and home insurances, and utilities. What might seem to be a small saving, can reap yearly benefits. Everything does count.

## After pay traps

After pay has taken Australian shoppers by storm. The lure of taking your item before you pay is a temptation few can resist. However, there's no such thing as a free Christmas lunch and After pay has its side effects – especially on your bank account.

Since After pay has no credit check, your credit history won't be affected – if you pay off your purchases. But debt has a habit of quickly getting out of control. After pay reserves the right to perform a credit check and report negative activity on your account to credit rating bureaus and mark your record. When the time comes to apply for your big and important expenses, such as your dream car or home, you might find those unpaid purchases have left an indelible mark on your financial freedom.

If you miss a payment, the fees can stack up quickly – and they are steep. If you miss a payment or don't have enough money in your account, you'll be charged \$10 per missing payment. If a week goes by and you still have an outstanding balance, you'll be charged an extra \$7. Multiply that across a few purchases and you'll rack up quite a considerable debt even though there is a \$68 cap. Even Santa's Elves couldn't think up such a scheme.

## Know How Much You Owe

Keep your receipts! It's easy to lose track of your spending when you use a credit card, but if you keep your receipts you can tally up your expenditure, review your credit card bills and allocate the money to pay them so you don't incur fees. Don't forget to add all purchases made on payment plans, deferred credit lines or store credit.

Keeping your receipts has the added benefit at tax time. You'll need all of your receipts to claim your expenses. The ATO accepts electronic copies, as long as they are clear and true, so you don't need to bother with faded paper receipts or a stuffed shoe-box.

## Earmark Your Tax Return

Making sure you keep on top of your expenses during the year has the added benefit at tax time. During the year you can start to estimate your taxable income, expenses and deductions you'll be able to claim. If you're expecting a tax return, think about using the money to pay off our debt first. It's money you otherwise wouldn't have missed.

**Pro Tax Tip:** Using a tax agent will generally maximise your tax return. Tax Agents undergo rigorous training and are aware of every single claimable tax deduction you'll be able to make. You'll be assured you're getting back all of the money you're entitled to.

Excessive Christmas spending can leave you with more than great memories. It can have a significant impact on your wallet with effects throughout the year. With some simple changes and arming yourself with knowledge, you can sit back and enjoy the season without worrying about money in the back of your mind.

*"Even before Christmas has said Hello, it's saying 'Buy Buy.'" — Robert Paul*

A good budget isn't about complicating your life. It's about knowing and understanding where you derive your income and where cash goes out. A new year brings a host of possibilities for everyone. What do you want to achieve in 2021? Consider your financial goals and take the right steps to achieve them.

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*Need a little help? ITP financial advisors have helped Australian individual and businesses reach their financial goals for fifty years. Phone 1300 136 729 and chat with a friendly financial advisor today.*

*ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.*



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