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How to Manage Your Finances When You Get a Raise

Yes, you should think hard about what to do with this extra money.

Getting a raise can change your finances forever. It can help you pay your debts and make sure you can afford all those luxuries you've been dreaming of.

But before you start racking up credit card debt, you need to stop and think about it. Too many people enter the rat race by increasing their spending as their finances improve.

Spending your working life like this is why so many retirees fear running out of money during their old age.

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How much do you really have?

Once you're finished cheering and whooping about how much money you have, check to see how much you're really getting. You might be surprised at how small that raise really is. Your finances won't look as good if Uncle Sam is taking a huge tax cut from your new salary.

Work out how much tax you'll have to pay on your new salary to get a better insight into what your finances will look like. In reality, you might only be getting a few hundred dollars more than before.

Review your budget

Review your finances before you start spending. Plug in the numbers and see how much more you have every month. You should consider how you can best use that money. Do you need to pay your debts? As a parent, you might want to save better for college. Luxuries should be the last thing on your list. Don't miss a golden opportunity by buying a new car for the sake of it.

Paying your creditors should come first

Paying your debts should be the priority because it's like a stone around your neck. Creditors are weighing you down. Your priority should be to get debt free. Make sure that the extra money focuses on freeing you of credit card debt and any other unnecessary expenses.

It may seem like a boring way to use your raise, but it's actually a smart move. Paying your debts now can enable you to make more money later.

Do you contribute to a retirement fund?

One option could be to think of the long-term. Think about your retirement. That can enable your employer to take the money directly out of your monthly salary. It will not only help you prepare for the future, but it will protect more of your money from taxes.

Preparing for retirement now and using that extra money wisely can make a huge difference to your future. Remember that the money doesn't have to go into a dedicated retirement plan. You can put it into a long-term investment fund, such as ETFs or tracker funds.

Consider a charitable donation

One of the favorite tax avoidance methods of the rich is to make a charitable donation. This makes more of their money tax-exempt. But anyone can do this.

Recent changes from the Tax Cuts and Jobs Act have doubled the standard deduction. So, many Americans are opting not to itemize and take the standard. But donations are still tax-deductible.

This will matter most depending on your income and how large a raise you receive. It's important to note that your donation must be to a qualified tax-exempt 501(c)(3) organization. Be sure to itemize your deductions when you file to reduce your tax bill.

Choose your preferred cause and send it there every month. You can set up a direct debit with that charity. Keep track of the payments and deduct them from your taxes.

Have fun with your raise

Life has to be lived and your raise shouldn't be something that has to sit in a bank for retirement. Make sure you use the best years of your life to do something other than pay your debts and donate to charity. Once you've taken a look at your budget feel free to use the money to enjoy yourself.

As long as you don't cause any damage to your financial health there's no reason why you can't buy that new set of golf clubs or take that vacation.

Last word – manage raises well

The difference between the rich and the poor is that the rich don't get into the rat race. They still live proportionally to their income. They may live a luxurious lifestyle, but they may only spend 10 percent of what they earn every single month. This is what financially educated people try to do even when they're poor.

The rat race is spending more as you make more and it's a terrible way to manage your money. Concentrate on saving and making your money work for you, but don't be afraid to have a little fun along the way.