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Get Out of Debt (and Stay Out)

Are you carrying a large amount of debt? On average, American households have about \$15,000 of credit card debt, according to NerdWallet. If you're struggling to pay off your outstanding balances, or if you're tired of high interest costs, the Tennessee Society of CPAs explains the best ways to get out from under those bills.

Step 1: Start Spending Less

It sounds so easy, but we all know that it can be pretty tempting to whip out the credit card and go completely off budget. To solve that problem, leave your credit cards at home and resolve to rely on cash throughout the day. In addition, delete your credit card information from the online merchants you visit most frequently so that it's a little harder to make an impulse purchase and you have time to reconsider. When you're about to splurge, ask yourself if your purchase is worth the interest costs you'll pay if you charge it and don't pay your balance off immediately. You may find it's easier to bypass busting your budget.

Step 2: Budget, Budget, Budget

It's tough to determine how much spending is too much unless you know what you can afford to spend each month. When you create a budget, add up your monthly income, then subtract your

recurring expenses, such as rent or mortgage, food, commuting costs and, of course, any regular debt payments. Remember that if you overspend what is left, it will just increase your outstanding debt balances.

Step 3: Pay off the Problem Accounts

If you have a manageable mortgage with a low interest rate, you'll certainly want to make timely payments, but erasing that balance will not be a high priority, especially since you can deduct the interest payments on your tax return if you itemize. High-interest charge cards are another story. Your best bet is to economize enough to pump up your payments and get rid of those balances entirely. If that's not possible, shop around for a credit card that offers a lower interest rate and aim to pay more than the minimum balance every month—without adding on any additional debt. And while you may be tempted to pay off a low balance first, if the interest rate on that account is reasonable, you should make the high interest accounts a priority.

Step 4: Dedicate Windfalls to Debt

Did you receive a tax refund this year? Or maybe you're expecting to get a bonus at work? It's natural to want to use some of that money for fun, so set aside a small percentage to put toward a vacation or other indulgence. Use the rest to lower your outstanding balances. In fact, whenever you find yourself with extra funds, earmark some for debt payments. Once you get in the habit, you'll find it's much easier to maintain smaller balances or even eliminate them completely.

Step 5: Reap the Rewards

When you pay off a big balance, give yourself a pat on the back and a nice reward. Think small, so you don't undo all the good work you've done. Plan a weekend away at a local amusement park, for example, instead of a week in the Caribbean. But do give yourself an incentive to stick with your smart spending plan.

Your Local CPA Can Help

Whether you're wrestling with debt or tackling other financial issues, be sure to turn to your local CPA. He or she can offer great ideas for managing your money.

About Money Management

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit www.tscpa.com. TSCPA is headquartered in Brentwood, Tenn.