

5 Simple Steps to Get Out of Debt

“The future depends on what we do in the present.” – Mahatma Ghandi

Over the past few decades, the perception of debt has shifted in our society. Before the 1980s, consumer debt was considered to be something shameful; something that was only used by the poorer members of society who had trouble “making ends meet”. With the introduction of credit cards, lines of credit and a myriad of financing options it has become increasingly acceptable (and increasingly easy) over the past 30 years to carry large amounts of consumer debt and this shift in public perception has been extremely profitable for lenders.

Related article: 16 IRS Tax Audit Red Flags: Tempting Audit Baits For Tax Auditor

Acceptable or not, when I sit down with people to talk about finances, I’ve yet to meet one person who is carrying debt and is happy about it. Recently, I had the opportunity to meet with three clients in their 20s who were anxious to conquer the debt mountain so that they could start building wealth of their own. Here are the 5 steps that we used to get out of debt along with some suggested reading:

Step 1: Know Your Debt

You can’t create a plan to conquer the mountain if you don’t know what you’re dealing with. To get out of debt you must start by listing each of your debts in a table that shows who you owe, what you owe, how much the minimum payment is and the interest rate you’re being charged.

Often the thought of doing this is scarier than the process itself. Writing everything down does mean you’ll have to look the debt monster in the face but like most scary things, thinking about doing them is far scarier than actually doing them. Once you have all your debts written down you’ll know exactly what you’re dealing with. It’s important to remember that what’s past is past and the only thing you can change is what happens from this point forwards. There’s no point putting energy into feeling upset, angry or ashamed about something you can’t change; instead, use those emotions to get yourself fired up about moving forward and taking positive action to better your situation.

Reading Suggestion: Top 4 ‘Dirty Dozen’ IRS Tax Scams Of 2014

Step 2: Know Your Situation

If you’re not paying your balances in full then where will you find the additional money to pay down your debt? Take a “financial snapshot” and write down exactly how much you have flowing in and out each month. What’s the difference between the two? How can you make that number bigger? There are only two ways: either you have to figure out a way to earn more or you have to find a way to spend less. Best of all, you find a way to do both. Take a close look at your monthly cashflow; if you can capture money from other expenses and repurpose it to attack your debt you’ll be able to get out of debt a lot faster.

Related article: How To Find A Professional Tax Attorney? – Complete Guide

Step 3: Know Yourself

Debt is not a problem. It’s a symptom of a problem. If you focus on fixing the symptom rather than the root cause of your financial situation there’s a good chance that you’ll end up facing the same issues down the road. It’s not uncommon for people to consolidate credit card debt with a loan or line of credit and then to run the card balances up again. Effective money management isn’t grounded in strong math skills; it’s grounded in our psychology.

Related article: 3 Tips You Need To Know For Your Upcoming Tax Audit.

People underestimate the impact that everything we have ever heard, seen and experienced in relation to money has on our ability to earn, hold and grow it. Understanding the psychology of money and how habits are created will help you create new belief patterns and new habits that will not only help you get out of debt but will also help you stay debt-free in the future.

Reading Suggestion: Ultimate Guide To Survive An IRS Tax Audit

Step 4: Create a Plan & Build a Buffer

Without a plan a goal is just a dream. Without a buffer you're far too vulnerable to the kind of curveballs that knocked you into the hole in the first place. Figure out how much you have each month to attack your debt and create a plan that will allow you to pay down each debt systematically, starting with the smallest balance (this is called the Debt Snowball). Keep your expectations realistic but figure out the end date for each debt so you can easily track your progress. Then, for the first few months, put half of your "debt attack" dollars against your debt and half towards savings. Build your savings to \$1000 and then attack your debt with every dollar you have. It might seem counter-intuitive to save money in a low interest account instead of paying down high interest debt but in doing so you create a buffer against unexpected expenses that could derail your debt busting plan. You also help your brain get comfortable with the idea that you are the kind of person that can have \$1000 just sitting in an account which is extremely important for the psychological aspects to get out of debt.

Related article:

Step 5: Implement Your Plan

In the words of Lao Tzu "a journey of a thousand miles starts with a single step." Change is often daunting because it involves stepping out of our comfort zone and into the unknown. Taking the first step to get out of debt is usually the hardest. Be prepared for the fact that you'll feel like giving up more than once; remember though, that it takes 21 days to create a new habit and it takes 21 months to create a new money habit. Don't give up if you falter or get off track in the beginning; just remind yourself of what you're moving away from and all the great things that lie ahead and then make the choice to get back on course. Evaluate your plan after three months, refine it if necessary and don't forget to celebrate every step of your progress towards that date with people who support what you're working to achieve.

Related article:

At the end of the day, you work hard for your money and it should be working harder for you than it is for your favourite retailer or financial institution. Conquering debt is a surefire way to improve your financial situation and put you

in a strong position to build wealth and a brighter future. If you have successful strategies to get out of debt, I'd love to hear about them.

There's no "secret sauce" in paying off tax debts. These are the only five ways of getting out from under the IRS' aggressive debt collection tactics. If a tax attorney pro promises you that you can save "pennies on the dollar" through an offer in compromise, that person is probably more interested in selling you something you don't need instead of focusing on your unique financial situation and determining what the best course of action is for you.

Finding a Tax Professional

A tax professional needs to be a Certified Public Accountant , Enrolled Agent , or tax attorney. Those are the only professionals allowed to practice before the Internal Revenue Service. CPA's and attorneys are limited to practicing in those states where they are licensed. Enrolled Agents can practice in any state. More tips on finding a tax professional
