

What Should You Do With 'Side Gig' Money?

As you know, the gig economy has been booming over the past several years. If you're thinking of using your skills to take on a side gig, what should you do with the money you'll make?

There's no one right answer for everyone, and the decisions you make should be based on your individual situation. And of course, you may simply need the extra income to support your lifestyle and pay the bills. But if you already have your cash flow in good shape, and you have some freedom with your gig money, consider these suggestions:

- *Contribute more to your IRA.* If you couldn't afford to contribute the maximum amount to your IRA, you may find it easier to do so when you have additional money coming in from a side gig. For the 2023 tax year, you can put in up to \$6,500 to a traditional or Roth IRA, or \$7,500 if you're 50 or older. (Starting in 2024, this extra \$1,000 "catch-up" contribution amount may be indexed for inflation.) The amount you can contribute to a Roth IRA is reduced, and eventually eliminated, at certain income levels.

- *Look for new investment opportunities.* If you're already maxing out your IRA, you might be able to find other investment possibilities for your side gig money. For example, if you have young children, perhaps you could use some of the money to invest in a 529 education savings plan. A 529 plan offers potential tax advantages and can be used for college, qualified trade school programs, and possibly some K-12 expenses. Please keep in mind that potential tax advantages will vary from state to state.

- *Build an emergency fund.* Life is full of unexpected events — and some can be quite expensive. What if you needed

a major car repair or required a medical procedure that wasn't totally covered by your health insurance? Would you have the cash available to pay these bills? If not, would you be forced to dip into your IRA or 401(k)? This might not be a good move, as it could incur taxes and penalties, and deprive you of resources you might eventually need for retirement. That's why you might want to use your gig earnings to help fund an emergency fund containing several months' worth of living expenses, with the money kept in a liquid, low-risk account. To avoid being tempted to dip into your emergency fund, you may want to keep it separate from your daily spending accounts.

- *Pay down debts.* Most of us will always carry some debts, but we can usually find ways to include the bigger ones — mortgage, car payments and so on — into our monthly budgets. It's often the smaller debt payments, frequently associated with high-interest-rate credit cards, that cause us the most trouble, in terms of affecting our cash flow. If you can use some of your side gig money to pay down these types of debts, you could possibly ease some of the financial stress you might be feeling. And instead of directing money to pay for things you purchased in the past, you could use the funds to invest for your future.

As we've seen, your side gig money could open several promising windows of opportunity — so take a look through all of them.

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