Five money mistakes to avoid after joining your first job

Avoid impulse buying. Understand tax implications on income and do not take on too much debt. Build an emergency corpus and go for long-term investment planning.

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Embarking on your professional journey and earning your first pay cheque is a significant milestone. As you step into the workforce, you are entrusted with work responsibilities, collaborating with colleagues and navigating the tasks set by your superiors. Along with these changes, you also gain access to your hard-earned income.
However, with this newfound **financial freedom** comes the responsibility to manage your finances wisely. While it is tempting to indulge in impulsive spending and instant gratification, it is crucial to strike a balance between enjoying your earnings and planning for the future. As a young earner, it is essential to understand the value of money and the importance of budgeting and saving. Let's read more about what are a few of the financial mistakes you should avoid at an early stage of your career.

Impulsive spending

When you begin to earn, you gain access to your own funds. While it is perfectly fine to celebrate your first job and the income it provides, it is also important to be mindful of **impulsive spending**. "Do not go big on buying expensive luxury items including branded clothes and top-end smartphones. Also, avoid buying your own vehicle immediately after joining your first job," said Rituparna Chakraborty, executive director, TeamLease Services, a staffing company.

There's a simple way out. Make a budget. Then stick to it.

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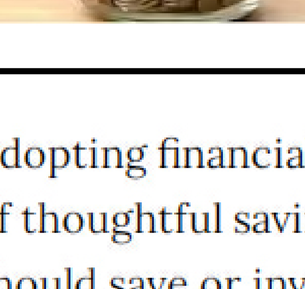
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Rent is one of the biggest expenses to tackle. "Ideally, one should not spend more than 30 percent (of the pay) on rent. It would be better to not go for individual accommodation and share instead. Take a PG (paying guest accommodation) instead of paying a high security deposit" that renting a flat entails, advises Chakraborty. Wisely managing hard-earned money is crucial to ensure financial stability and make the most of your earnings.

Not saving enough

Adopting financial prudence goes beyond avoiding overspending; it also involves cultivating a habit of thoughtful saving and investment from your very first pay. According to Chakraborty, "One should save or invest at least 25 percent of his or her salary."

Hemant Rustagi, CEO of financial planning firm Wiseinvest Pvt Ltd is of the same view. "As a thumb rule, one should aim to invest 20-30 percent of the salary every month," said Rustagi. However, Rustagi elaborated that thumb rules don't take into account personal situations. Therefore, there is a probability of investing more or less depending on the family finances. "In both these situations, the key should be to begin the investment process early and keep increasing the investment amount as income increases over time," added Rustagi.

Some financial planners believe savings should be based on the financial goals of the individual. Sanjeev Govila, a SEBI-registered investment advisor and CEO, Hum Fauji Initiatives, a financial planning firm, said that for a fresher the first aim should be to build an **emergency corpus**, equivalent to at least three to six months' worth of living expenses. "In the early stages of your career, you can start with (putting away) around 10 percent of your monthly salary and gradually increase the amount as your income grows," said Govila. He added that one should start saving 10-15 percent of the monthly income for retirement, consider allocating around 20-30 percent to long-term investments and allocating 10-20 percent for short-term goals.

Besides, if there is debt to be repaid like **education loans** and so on, one should allocate 10-20 percent of your monthly salary towards this end until you become debt-free, added Govila.

"These percentages are, of course, general guidelines, and you should adjust them based on your specific financial situation, goals and risk tolerance," underlined Govila.

Not understanding tax implications

Did you know that the salary you receive in hand might already have undergone **TDS (Tax Deduction at Source)** adjustments by your employer? However, it's important to be aware that you may be eligible to claim a refund for all or a portion of the TDS through effective tax planning. This is because certain investments and expenses qualify for deductions, ultimately reducing your overall tax liability.

Ideally, you should make a declaration at the beginning and avoid unnecessary TDS from beginning. But also remember to make necessary investment in live with your declaration during the financial year.

By strategically planning your investments and expenses, you can maximize your deductions and potentially receive a refund for the excess tax deducted from your salary. It's essential to explore the various tax-saving options available, such as investments in tax-saving instruments like mutual funds or **Public Provident Fund (PPF)**, and deductions for expenses like medical bills or **home loan interest payments**.

An endowment insurance policy might get your **Section 80C tax deduction benefits**. But it entails you to make an annual commitment, which might just stretch your budget. Look for investment which has minimal tax implications or in a product that exempts you from paying taxes at all stages of your investment lifecycle. Or what is commonly called, 'exempt, exempt, exempt' (EEE) tax implications, that means exempt at the time of investment, exempt earnings and exempt at the time of withdrawal. PPF is one such product. But it comes with a long maturity period of 15 years. Make sure it's fits into your financial plan or asset allocation

These are some of the pulls and pushes that come from the world of taxation. Income tax is an inevitable reality that individuals encounter once they start earning. Just make sure you understand the tax implications on your income and investments. "Ignoring tax planning can result in missed opportunities to save money," said Govila. Consult a financial advisor or use online resources to learn about tax planning and investment strategies.

"Educate yourself about various tax-saving investment options available in India, such as **equity-linked savings schemes (ELSS)**, PPF, **National Savings Certificates (NSC)** or tax-saving fixed deposits. Utilise these avenues to optimise your tax liabilities while building wealth," added Govila.

Taking on too much debt

When you begin earning, you become eligible to avail credit from various financial institutions. However, it is crucial not to start availing credit solely because you are eligible to do so. Avoid taking on too much debt, such as credit card debt or personal loans. "Do not allow credit card dues to be more than 30 percent of your monthly salary," said Chakraborty. It's essential to live within your means and avoid taking on debt that you cannot afford to repay.

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Not planning for the future

"Failing to set clear financial goals is also one of the common mistakes," said Govila. He further advised, "Define your short-term and long-term objectives, such as saving for a material purchase, creating an emergency fund, or planning for retirement. Setting goals will help you align your investment decisions and stay focused."

Often, newcomers in the workforce tend to believe that they should enjoy the money they earn during the initial years rather than focusing on saving and investing. "The fact remains that if they start saving and investing at an early age, they get into a disciplined financial life and benefit from the power of compounding and that too without compromising on their current lifestyle," said Rustagi.

Where to invest is also an important aspect to understand for a fresher. "Young people are told to avoid investing in equities. In most families, parents and relatives advise freshers to invest into traditional options and commodities like FDs (fixed deposits) and gold and hence their apprehensions and misperceptions about equities keeps the youngsters away from it at that early stage. When infact the early 20s is the best time to start investing in equities," said Rustagi. However, "If freshers start investing into equity funds through SIPs (systematic investment plans), they will understand the potential of equities and the role it can play in securing their financial future. More importantly, they will understand the dos and don'ts of equity investing. The major benefit of that is that once they reach a stage when they have serious money to invest, they understand equities much better," added Rustagi.

So, live your life fully, but remember that it is essential to have a long-term financial plan that includes goals such as buying a house, starting a business or saving for your child's education. Start planning early and work towards achieving your financial goals gradually over time.

Check your money calendar for 2023-24 here and keep your date with your investments, taxes, bills, and all things money.

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