

A young man and woman are smiling together in a classroom setting. The man is in the foreground, wearing a blue and grey striped sweater, and the woman is behind him, wearing a white top and a red and white patterned scarf. A yellow box is overlaid on the right side of the image, containing the title text.

KEY 4 Participant Guide Understanding Your Income

JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

THE ANNIE E. CASEY FOUNDATION

KEY 4

Understanding Your Income



“Understanding Your Income” is the fourth key in *Keys to Your Financial Future*, a financial capability curriculum for young people. This key covers what income is, how you can be paid, ways to receive your pay, understanding your paycheck and paycheck stub, paying taxes, increasing income and planning your career path.

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What You're Going to Know or Be Able to Do

By the end of this section, you'll know or be able to do the following:

EXPLAIN the different ways to get income.

DESCRIBE the different ways you can be paid (receive income).

READ a paycheck and paycheck stub.

COMPLETE a W-4 and understand the reason for it and how it affects both take-home pay and how much income tax you have to pay.

UNDERSTAND when to file an income tax return, generally how to file an income tax return and the information needed to complete an income tax return.

KNOW where in the community to get good, no-cost help with filing taxes or when there are problems with tax payments/returns.





PART-TIME VS. FULL-TIME EMPLOYMENT

Part-time employment generally means working fewer than 35 hours. Full-time employment means working 35 hours or more.

This can be important. Some employers do not provide benefits such as health insurance, sick pay or paid time off to part-time employees.

TIME AND A HALF or OVERTIME

Some employees who work more than 40 hours within a week are entitled to overtime pay. This is time and a half or 1.5 times your gross pay rate.

For example, if you earned \$10.00/hour and worked 48 hours in a week, your gross pay would be:

$$\begin{aligned}
 & \$10.00 \times 40 \text{ hours} = \$400 \\
 + & \underline{\$15.00 \times 8 \text{ hours}} = \underline{\$120} \\
 & = \$520
 \end{aligned}$$

WHAT IS INCOME?

Income is any money you earn.

How have you earned income? OR How are you earning income now?

Income can come from many different places, including:

- + **Odd jobs** — watching a neighbor’s pet while they are on vacation or babysitting.
- + **Part-time employment** — working at a restaurant, retail store or some other place for less than 35 hours per week.
- + **Full-time employment** — working at any number of places for 35 hours or more per week.
- + **Self-employment** — starting your own business and operating it part or full time.
- + **Contract employment (gig work)** — working on a temporary or short-term basis under contract, not as an employee.
- + **Public benefits** — receiving Supplemental Nutrition Assistance Program (SNAP) benefits (commonly called food stamps), housing subsidies, **Social Security, Supplemental Security Income** and other public assistance. You must apply and meet eligibility requirements to get these benefits.
- + **Child support** — getting income from the other parent of your child to support your child.
- + **Gifts** — receiving cash or gift cards from family or friends for your birthday, a holiday or other occasion.
- + **Tax refunds** — payment to you after filing taxes because of overpayment of **income tax** or due to **tax credits**.

How You Can Be Paid

There are different ways to be paid, and different laws protect you depending on how you are paid.



KEY ACTIVITY

How You Are Paid

Match how you can be paid with the description. Then, think of two examples of jobs often paid in that way.

HOW YOU CAN BE PAID	DESCRIPTION	EXAMPLE JOBS
1. Salary		
2. Hourly		
3. Commission		
4. Contract		
5. Tips		
6. Under the table		
7. Bonus		
8. Business profits		

DESCRIPTIONS

- A. Money paid when you achieve a goal or a level of sales.
- B. Money paid for good service.
- C. Money paid in cash or **pre-paid cards** and not recorded or reported for tax purposes by the employer.
- D. Money paid based on the hours you work.
- E. Money from your business when your revenues are greater than your expenses (profits).
- F. Money paid to someone who works on a job or project — paid when part or all the work is completed.
- G. Money paid for excellent work — often at the end of the year.
- H. Money paid based on an annual total.

WHY DOES THIS MATTER?

How you are paid affects: 1) How you report income. 2) How you pay taxes. 3) The laws that protect you.

For example, if you are an hourly employee, your employer will:

- + Pay you at least the federal or state **minimum wage**. There are some exceptions to this.
- + Withhold federal, state and, in some cases, local taxes for you.
- + Contribute half of what you owe for **Social Security** and **Medicare**.
- + Pay you overtime or time and a half if you work more than 40 hours a week. There are some exceptions to this.
- + Pay **workers compensation** and **unemployment insurance** in case you are injured or become unemployed.
- + Pay other benefits such as sick leave, vacation leave and health insurance.
- + Send you a report of your earnings called a **W-2**. You use this to complete an **income tax return**.

If you are paid by contract, you are considered “self-employed.” In this case, the business hiring you will:

- + Pay the rate you and the business negotiate. There is no legal minimum.
- + Not withhold federal, state or local taxes for you. You must submit these taxes quarterly.
- + Not contribute half of what you owe for Social Security and Medicare. You must pay the full amount out of your earnings.
- + Not pay you overtime. You generally work until you’ve finished the job as negotiated.
- + Send you a report of the amount it paid you called a 1099. You use this to complete an income tax return.



USING A PAYROLL CARD

While direct deposit is often the best option for getting and managing your paycheck, a payroll card may be a good option if you don't or can't have an account at a bank or credit union. You can track your use of the card, fees and card balance by activating online or mobile features for the card.

If using a payroll card is an option with your employer, be sure to ask the following questions:

- What are the fees?
- Does the card have overdraft options? In most cases, you want to stay away from cards with these features. They often trap people in a cycle of debt.
- Can funds from a second job be loaded onto the payroll card?
- How will paycheck stubs or statements be provided?
- What are the provisions for a lost or stolen payroll card?
- Can an ex-employee still use the payroll card?

The Timing of Income

Managing income can be tricky if the amount of money changes every time you are paid. It can be even more challenging if the timing changes. Your income is regular if you are paid a salary or have a fixed number of hours you work every pay period, and you are paid weekly, biweekly or monthly. Your income is also regular if you are getting a public benefit such as **SNAP benefits**, cash assistance (**Temporary Assistance for Needy Families**) or Supplemental Security Income.

Your income is irregular if:

- + Your hours change. This can happen if you are a full-time or part-time worker.
- + Your payday is unpredictable.
- + You work seasonal or odd jobs.
- + You are self-employed.

Making a budget with irregular income is more difficult. Having irregular income may require you to build savings so you can cover expenses during the weeks or months you have less or even no income.

Ways to Receive Your Pay

The way you get your pay can affect how you manage it. **What are the different ways you can get income?**

When you work odd jobs, you will often be paid with cash, personal check or online or via mobile app like PayPal, Venmo or Zelle by the person who hired you. When you have a job, you may get your pay in cash, in a paycheck, through direct deposit or on a payroll card. When you run your own business, you may receive cash, checks or even credit card payments from customers. Public benefits vary depending on what program you are using. SNAP benefits, for example, have an electronic benefits transfer (EBT) card that works like a debit card.

KEY RIGHT

Do You Have to Use a Payroll Card?

Your employer cannot require you to get your pay on a payroll card. Employers must provide at least one alternative.

Some employers will give you a choice between direct deposit to a payroll card, direct deposit into your bank account or a paper check. Others may only give you a choice between

direct deposit to your own bank account or a prepaid card you choose, or a payroll card.

State law says what choices an employer must give you. In some states, employers are required to get your written consent before paying you with a payroll card.

Source: Consumer Financial Protection Bureau

When it comes to receiving a paycheck, you may have three options:

OPTION 1: PAPER PAYCHECK

When you work for someone, you will get a paycheck. There are three basic ways to cash a paycheck:

- + If you have an account at a bank or credit union, you can cash it. Or deposit it into an account and make a withdrawal for cash.
- + You can take the check to your employer's bank. The bank's name will be printed on your paycheck.
- + You can go to a check-cashing business, a supermarket or other retail business that cashes checks. You will a pay fee for this service (typically \$3 to \$6 per check).

Your paycheck will be attached to a paycheck stub. This has the information about your paycheck. Keep your paycheck stubs to help develop a budget, show proof of income and prepare taxes.

OPTION 2: DIRECT DEPOSIT

With **direct deposit**, your net pay is electronically transferred into your account on payday. You can use these funds immediately. Net pay is the amount you take home after taxes and other deductions have been taken out.

You can have your entire paycheck directly deposited into your checking account. You can then have a fixed amount automatically transferred to a savings account to help you build savings. This is the easiest way to save.

With direct deposit you must make sure you understand the rules of your account — fees, minimum balance requirements and using the debit card or ATM card attached to the account.

You will still receive a paycheck stub with direct deposit. Your bank statement will also record all your direct deposits.

OPTION 3: PAYROLL CARD

Payroll cards are sometimes called *payroll debit cards* or *pay cards*. Some employers will put your net pay on a reloadable debit card. You do not need a bank account to get your pay this way. You can use this card to make purchases and make withdrawals from ATMs until the balance on the card reaches zero.

Most payroll debit cards are branded with a VISA, MasterCard, Discover or American Express logo. They are not credit cards, though. This just tells you what network is used to make payments.

Like direct deposit, you will have access to your pay right away, you will save time (you won't have to cash a check) and you won't have to pay fees to cash your check. You will get a paycheck stub or payroll card statement for your records. Payroll cards, however, may have other fees. Before you opt for a payroll card, understand the fees you may be charged.

Remember, your employer cannot require you to get your pay on a payroll card. They must provide at least one alternative.



USING DIRECT DEPOSIT

If you get a regular paycheck, consider direct deposit. Direct deposit will save you time and money. When you use direct deposit, you will have access to your money right away. Direct deposit can also help you save money for your goals.

There may be times when direct deposit may not make sense:

- If you cannot get a bank account.
- If you risk money deposited into an account being garnished for unpaid debts such as student loans or child support. (Garnished means that the money can be legally taken to pay for a debt you owe.)

Key to Your Financial Future: Your Income Worksheet

Use this worksheet to track your income for one month. You can use this to help build your budget.

INCOME	WEEK 1	WEEK 2	WEEK 3	WEEK 4	WEEK 5	TIMING	WAY YOU ARE PAID (circle one)
Odd jobs						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Full-time job						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Part-time job						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Self-employment						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Contracts/Gigs						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Benefit (SNAP, TANF, Medicaid, SSI, etc.)						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Benefit (SNAP, TANF, Medicaid, SSI, etc.)						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Benefit (SNAP, TANF, Medicaid, SSI, etc.)						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Stipend						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Child support						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Gifts						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Tax refund						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
Other						Regular Irregular	Cash, Check, Direct Deposit, Payroll Card, EBT, Online/Mobile
WEEKLY TOTAL						MONTHLY TOTAL	


Understanding the Paycheck and Paycheck Stub

When you get a paycheck, it will be attached to a paycheck stub. There is a lot of information on a paycheck stub.

It includes your **gross pay** — your total earnings. It also includes your **net pay** — the amount you take home.

What is the difference between your gross pay and net pay? Deductions. **Deductions** are items your employer takes out of your paycheck. Some are deductions for taxes — federal, state and local. Some states, cities and towns do not collect personal income tax. Some deductions are for Medicare and Social Security called FICA (Federal Insurance Contributions Act). Some deductions are for benefits like health insurance or retirement. Paycheck stubs include information about deductions and benefits.

You will also use your paycheck stub to show proof of income and check your wage-earning statements (W-2) at the end of the year. **Understanding your paycheck is a key to managing your income.**



KEY Concept

GROSS PAY vs. NET PAY

Gross Pay – Deductions
= Net Pay

Gross pay is what you make.
Net pay is what you take home.



KEY ACTIVITY

Reading a Paycheck and Paycheck Stub

Julius has recently been hired. After completing lifeguard training, he will be able to work all year at the Community Center because it has an indoor pool. He's excited to have a regular paycheck. He will be able to work 25 to 30 hours each week while completing his final year of high school.

But he's never had a paycheck before. Use the paycheck and paycheck stub to help Julius understand how much he makes (gross pay), how much he takes home (net pay) and other benefits of his employment.

Community Center			Check No.: 30495			Employee #: 0185			
Employee Name: Julius Johnson			Period Beginning: 9/1/2020			Period Ending: 9/15/2020			
Social Security #: 400-31-0086									
Earnings						Required Deductions			
	Current		Year-to-Date			Current	Year-to-Date		
	Rate	Hours	Earnings	Hours	Earnings	Federal Withholding	\$46.13	\$115.33	
Regular Earnings	\$10.75	57	\$612.75	142.50	\$1,531.88	FICA - Social Security	\$36.44	\$91.10	
Overtime Earnings	\$16.13	0	0	0	0	FICA - Medicare	\$8.52	\$21.30	
Sick Leave Balance	0	0	0	0	0	State Withholding	\$10.00	\$25.00	
Annual Leave	0	0	0	0	0	Local Withholding	\$7.50	\$18.75	
Total Required Deductions							\$108.59	\$274.48	
							Other Deductions		
							Parking	\$12.50	\$31.25
							Retirement (403b)	\$30.64	\$76.60
Total Other Deductions							\$43.14	\$107.85	
NET PAY							\$460.99	\$1,152.55	

Community Center
1234 Main Street
Downtown, USA 98751

30495

Date: 9/15/2020

Pay: Four hundred sixty and 99/100 Dollars

Amount: \$460.99

To the Order of: Julius Johnson

Downtown Credit Union

Maria Estez

56799 948 978462

Maria Estez, CEO

1. What is the gross pay?

2. What is the net pay?

3. Which amount should Julius use in creating a budget? Why?

4. How much does he make per hour? For overtime?

5. How many hours did he work this pay period?

6. How much gross pay has he earned this year?

7. How much does he have taken out of his paycheck for withholding for taxes for this period?

8. How much does he have taken out of his paycheck for Social Security and Medicare for this period?

9. What benefits are deducted from his paycheck?

10. Why do you think the sick and annual leave balances are "0"?

If you have a job, review your pay stub when you get home. See if you can identify all your deductions, including your benefits.

KEY RESOURCE

GETTING HELP TO UNDERSTAND YOUR PAYCHECK

If you are unsure about the information in your paycheck or paycheck stub, meet with your employer. Ask your supervisor or someone in the human resources department for help. This person can also help make sure you are getting all the benefits your workplace has to offer.

Name and contact info: _____

INCOME AND TAXES

Income that you earn is taxed. Tax is how governments make revenue. Revenue is another word for income.

How does government use this revenue?

If you work for an employer, you probably have part of your income withheld for federal, state and, in some cases, local income taxes. This is a benefit. **How is an employer taking money out of your paycheck a benefit to you?**

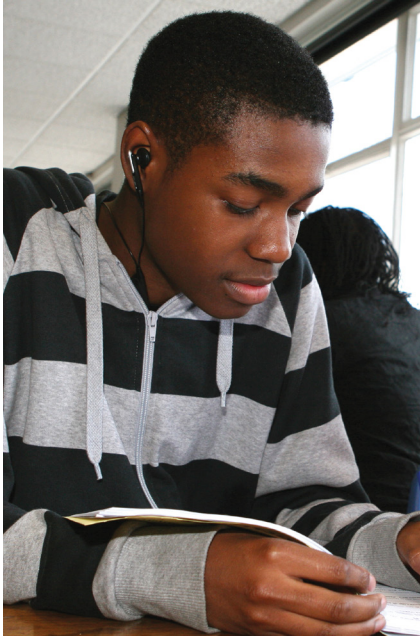
When you are hired, you will be asked to complete a W-4 form. This tells the employer how much to withhold from your taxes.

----- Separate here and give Form W-4 to your employer. Keep the worksheet(s) for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Allowance Certificate ▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.	OMB No. 1545-0074 2018
1 Your first name and middle initial Julius K		2 Your social security number 400-31-0086
Last name Johnson		
Home address (number and street or rural route) 9876 Second Street		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."
City or town, state, and ZIP code DOWNTOWN, USA 98751		4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>
5 Total number of allowances you're claiming (from the applicable worksheet on the following pages)		5 2
6 Additional amount, if any, you want withheld from each paycheck		6 \$ 0
7 I claim exemption from withholding for 2018, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶		
		7
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.		
Employee's signature (This form is not valid unless you sign it.) ▶		Date ▶
8 Employer's name and address (Employer: Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.) Community Center 1234 Main Street, DOWNTOWN, USA 98751		9 First date of employment 8/1/18 ×
		10 Employer identification number (EIN) 10-5555555

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 10220Q Form **W-4** (2018)

This form causes confusion. People often wonder: *How many allowances should I claim on line 5?*



The more **exemptions** you claim, the less federal income tax will be withheld. The fewer exemptions you claim, the more federal income tax will be withheld.

You can claim the following exemptions if they apply to you:

- + one for yourself;
- + one if you are single and have only one job, married and spouse does not work or total wages from a second job are \$1,500 or less;
- + one for your spouse;
- + one for each dependent (A dependent is someone that relies on you for financial support. If you have primary custody of your child, you can claim that child as a dependent);
- + one if you are filing as head of household; and
- + one if you have at least \$2,000 of child or dependent care expenses you plan to claim as a credit.

Why did Julius claim two exemptions?

What would happen to Julius's take-home pay if he claimed "0"?

If he claims "0," what is the biggest risk?

If you earn income, you must pay **income taxes**. If you don't pay a little bit from each paycheck, you may owe a lot of money on April 15. April 15 is the date tax returns and payments are due to federal, state and local governments. You pay income tax on earnings from the previous year.

People who work for themselves must make sure they are withholding part of their earnings and sending these to the federal government throughout the year.

Each year, you will get a statement of the amount you earned. This is the primary information you need to complete a tax return.

If you are an employee, you will receive a W-2 form.

22222		Employee's social security number 555-12-3456		OMB No. 1545-0008	
Employer identification number (EIN) 55-9876543		1 Wages, tips, other compensation 9,672.00		2 Federal income tax withheld 745.00	
Employer's name, address, and ZIP code ABC COMPANY 1234 MAIN STREET ANYTOWN, UT 84555		3 Social security wages 9,672.00		4 Social security tax withheld 599.66	
		5 Medicare wages and tips 9,672.00		6 Medicare tax withheld 140.24	
		7 Social security tips		8 Allocated tips	
		9		10 Dependent care benefits	
Control number		11 Nonqualified plans		12a	
Employee's first name and initial Last name JOHN J. TAXPAYER 900 N 500 W MY TOWN, UT 84555		13 Statutory employee Retirement plan Third-party sick pay		12b	
		14 Other		12c	
				12d	
Employee's address and ZIP code		16 State wages, tips, etc. 9,672.00		17 State income tax 336.20	
15 State employer's state ID number UT 12345678-001-WTH		18 Local wages, tips, etc.		19 Local income tax	
				20 Locality name	

W-2 Wage and Tax Statement
Form Copy 1—For State, City, or Local Tax Department

Department of the Treasury—Internal Revenue Service

State ID (must be UT)
Employer Identification Number (EIN)
State ID Number 14 characters, ending in "WTH"
Utah Taxes Withheld

Source: Utah State Tax Commission

If you are employed as a contractor, you will get a 1099 form.

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. Computer Fix It Station 4321 First Street Big City, USA 09876		1 Rents \$		OMB No. 1545-0115 2018 Form 1099-MISC		Miscellaneous Income	
PAYER'S TIN 18-9876543		RECIPIENT'S TIN 500-30-5516		2 Royalties \$		4 Federal income tax withheld \$	
RECIPIENT'S name Lula Davis		3 Other income \$		5 Fishing boat proceeds \$		6 Medical and health care payments \$	
Street address (including apt. no.) 135 Angle Avenue		7 Nonemployee compensation \$ 5,680		8 Substitute payments in lieu of dividends or interest \$		Copy 1 For State Tax Department	
City or town, state or province, country, and ZIP or foreign postal code Big City, USA 09875		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>		10 Crop insurance proceeds \$			
Account number (see instructions)		FATCA filing requirement <input type="checkbox"/>		11		12	
13 Excess golden parachute payments \$		14 Gross proceeds paid to an attorney \$		15a Section 409A deferrals \$		15b Section 409A income \$	
16 State tax withheld \$		17 State/Payer's state no.		18 State income \$			

Form 1099-MISC
www.irs.gov/Form1099MISC
Department of the Treasury - Internal Revenue Service

KEY RESOURCE

FREE TAX PREPARATION HELP

You may notice businesses in your community that complete tax refunds for a fee. But, you can get trustworthy help in the community for free.

Visit a Volunteer Income Tax Assistance program. The volunteers are trained by the IRS.

You can find a free tax preparation site in your community by visiting <https://irs.treasury.gov/freetaxprep>.

Name and contact information for tax preparation site:

Hours and services available:



INCOME TAX REFUND

An income tax refund is a payment to you for money you have overpaid for taxes.

You can get your refund sent to you as a check or directly deposited into your checking account.

If you do odd jobs or receive cash for your work, your earnings are probably not being reported for tax purposes. This is called being paid “under the table” because no one sees it. This means neither you nor your employer are paying taxes on your earnings.

This may sound good, except for the following reasons:

- + It is illegal in most cases.
- + You have a legal obligation to report your earnings and file taxes. You may run into trouble with the IRS and end up paying penalties as well as interest on the amount of taxes you should have paid but didn't.
- + You are ineligible to receive worker's compensation — payments to cover medical expenses and time off if you get hurt on the job.
- + You are ineligible to get unemployment if you get laid off, any other benefits or overtime pay.
- + You have no legal rights under state or federal employment laws.

You are also not earning points for Social Security. This could mean getting a smaller Social Security check when you retire. Keep your own record of earnings — dates paid, amounts and for what kinds of work. When you file taxes, you will complete Schedule SE (self-employment) in addition to a 1040 form.

Otherwise, you will use the W-2 or **1099** to fill out your income tax return and figure out how much tax you owe. You will use the 1040 form from the **Internal Revenue Service (IRS)**. Many people can complete the short form called the 1040 EZ.

There are other tax forms for special circumstances, including:

- + business earnings;
- + interest you pay on a mortgage (you may get a deduction for this); and
- + **child and dependent care expenses.**

There are also special publications with instructions to help you complete sections of the 1040 that may apply to you. These are all available on the IRS website at www.irs.gov.



Employers or businesses must send completed W-2 and 1099 forms to employees or contractors by January 31. This means, you can generally complete your tax return starting in February rather than waiting until April 15.

All the money the employer withheld for you counts toward the amount of income tax you owe for the year. Often, when working for an employer, enough will have been withheld throughout the year. If not, you will have to pay what you owe by April 15 to avoid penalties and interest.

Sometimes, too much is withheld for income taxes. In this case, you may get an income tax refund.

You can get paper copies of the tax return you need to complete and send it through the mail. You can also complete your tax return electronically and e-file. When you e-file, you are likely to get your income tax refund (if you have overpaid) within 21 days.

TAX DEDUCTIONS AND CREDITS

Tax deductions allow you to reduce your taxable income. The higher your deductions, the lower the amount of income that will be taxed. This means you will pay less tax. You can claim the **standard deduction** (a set amount) or **itemized deductions** (a list of specific deductions).

Tax credits reduce the amount of the tax you owe.



REFUND ANTICIPATION LOANS

Some tax preparers will offer you a loan for the amount they estimate you will receive for a tax refund. When the refund comes in, they keep it to pay off the loan.

This might sound like a good deal, but you will pay fees for this, and you usually will not have to wait more than three weeks (or even sooner if you e-file) for your tax refund. Also, if the tax refund is lower than the amount estimated, you will owe the company that provided you this loan even more money.

Be careful about any offer for a "Refund Anticipation Loan."

KEY RIGHT Earned Income Tax Credit

The Earned Income Tax Credit gives working individuals and families extra income. It is a refundable tax credit. This means that you can get the money in a refund even if the tax you owe is zero.

For example, a parent with one child, earning \$29,000, could receive a refund of up to \$3,400 even if she or he owed no taxes. For individuals without children, the maximum EITC is \$519.

This \$3,400 could be used to build savings, pay off debt and more. The key to making the most of the EITC is planning before you get the refund. You must also submit a tax return to get the refund.

The income to qualify and amount of the credit changes. For the most up-to-date information, visit www.irs.gov/credits-deductions/individuals/earned-income-tax-credit.



KEY ACTIVITY

Anthony Claims Income Tax Deductions and Credits

Read the following example to understand how tax deductions and credits work.

Anthony is single and doesn't have any children or dependents. His income last year was \$14,500. He decided to take the standard deduction of \$12,000.

What is Anthony's taxable income after subtracting the standard deduction?

$$\$14,500 - \$12,000 = \underline{\hspace{2cm}} \text{ (This is the amount Anthony will pay taxes on.)}$$

To find out how much tax he owes, he would multiply his **taxable income** by his tax rate. Tax brackets are ranges of income. Each range has its own tax rate. Anthony's tax rate is 10%.

$$\underline{\hspace{2cm}} \text{ (taxable income)} \times 10\% = \underline{\hspace{2cm}} \text{ (income tax owed)}$$

Because of his income, he qualifies for the Earned Income Tax Credit (EITC). Subtract the EITC amount from his taxable income. If the answer is a negative number, this is the amount of his tax refund.

$$\underline{\hspace{2cm}} \text{ (tax owed)} - \$519 = \underline{\hspace{2cm}} \text{ (income tax owed or tax refund amount)}$$

INCREASING INCOME

You may find you want to earn more now or in the future. **What are ways to increase income?**

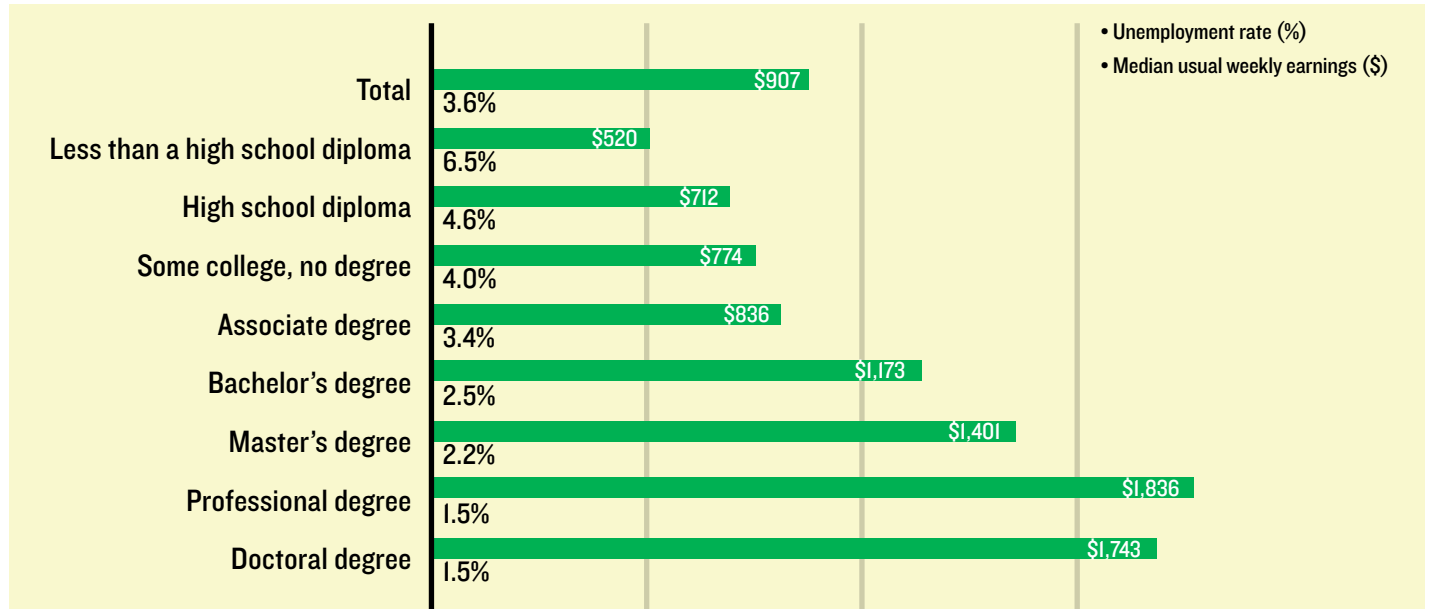
SHORT-TERM STRATEGIES	LONG-TERM STRATEGIES

One key way to increase income is to get more education and training.

TRAINING AND EDUCATION PAY

More education generally leads to higher earnings. The following chart shows the median weekly earnings in the United States by level of education in 2017.

The chart also shows the **unemployment rate** and earnings by level of education attained.



SOURCE: U.S. Bureau of Labor Statistics. (2018, March 27). *Unemployment rates and earnings by educational attainment, 2017* (Table). Retrieved August 2, 2018, from www.bls.gov/emp/tables/unemployment-earnings-education.htm

KEY ACTIVITY

How Much Does Education Pay?

Using the chart above, answer the following questions.

How much more does a high school graduate make than someone without a high school diploma?

How much more does someone with a bachelor's degree make than someone with a high school diploma? On a yearly basis (hint: multiply the weekly number by 52)?

What do you notice about level of education attained and the associated unemployment rate?

Training and education not only help you earn more money, but also can help you maintain employment.



LOANS, GRANTS AND SCHOLARSHIPS

If it must be paid back under any circumstance, it is a loan. You can get federal loans from the federal government, federal loans through your school or private loans from banks or credit unions.

If it never has to be repaid, it is a grant or a scholarship. Grants come in the form of federal aid and state grants. They are generally given to students that have financial need.

There are specific programs for young people who are or have been in foster care. These programs help you pay for postsecondary education or training — the [Chafee Educational and Training Vouchers \(ETV\) Program](#).

Scholarships are like a contest. You are competing against other students to win funding based on your special accomplishments or traits.



Training and Education Cost, Too

Investing in training and education after earning a GED or high school diploma may cost a lot of money. For example:

- + The average annual cost to attend a two-year college while living independently off campus is estimated at \$17,400 per year.
- + The average annual cost to attend a four-year public college or university while living on or off campus independently is estimated at \$24,000 a year.
- + This rises to \$49,000 per year for a four-year private, nonprofit college or university.

These cost estimates assume no financial aid or scholarships. You may have access to resources to help you pay for some of your training or college expenses, so the amount you pay may be less.

Even though there are costs associated with education and training, they are an investment in your future. The time and money you invest will create returns. In this case, the returns are more job opportunities, higher potential earnings, greater protection from unemployment and financial independence.

But, it takes planning to think through balancing the returns on investments in training and education and the costs of getting that training and education as well as choosing and paying for postsecondary education and training.



GETTING FINANCIAL AID

According to a recent study by the Institute for College Access and Success, the number-one barrier to higher education is access to “stable and affordable” housing.

Financial aid can be used to cover housing, but many young people do not apply for aid for these reasons:

- The applications are long and confusing.
- They have no support in completing the forms.
- They are not aware of the deadlines to apply or requirements of the aid — minimum GPA or specific courses completed in high school, for example.
- They do not have the documentation required to confirm eligibility for aid — Social Security card, birth certificate and school records, for example.

You can increase success in applying for aid by:

- having an advocate to see you through the entire aid application process;

- finding out from school counselors or other qualified individuals as early as possible the academic requirements for financial aid, which allows you to plan and perform accordingly during high school;
- completing the FAFSA and any state-level aid forms as soon as possible — some deadlines are as early as February or March for aid for the following fall; and
- getting documentation in order — birth certificate, ward-of-the-court letters, academic records and transcripts and Social Security card — and putting it in one safe place for easy access during the aid application and enrollment processes.

KEY RIGHT

Completing the FAFSA

The FAFSA asks questions to figure out if you are dependent or independent. If you are independent, your resources — income and assets — are counted differently. In most cases, being considered independent will make you eligible for more aid.

One specific question on the FAFSA is: “At any time since you turned age 13, were both of your parents deceased, were you in foster care or were you a dependent ward of the court?” If you answer “yes,” you will be considered independent even if you are living with a foster family or already 18 years old and not involved in the child welfare system.

Because you are considered independent for the purposes of the FAFSA, you do NOT need parental signatures.

For more information, visit the official FAFSA website: <https://studentaid.ed.gov/sa/fafsa>.

CHAFEE ETV + PELL = POTENTIALLY A LOT OF MONEY TO PAY FOR POSTSECONDARY EDUCATION AND TRAINING

If you have been in foster care, you will likely qualify for both Chafee ETV funds and a Pell Grant for postsecondary training and education expenses. Through the Chafee ETV program, you are eligible for \$5,000 per year for five years until you are 23 if you enroll before you are 21. (Not every eligible young person receives these funds because demand for funds is sometimes greater than funding available.)

Currently, you can receive up to \$6,095 (for the 2018/2019 school year) per year from the Pell Grant Program.

With these two programs, you would have \$11,095 each year to cover a broad range of postsecondary training and education expenses. And because these are grants, you never have to repay them! For more information, visit www.fc2success.org.



PLANNING YOUR CAREER PATH

Figuring out whether to finish high school or get more training and education after high school **starts with planning your career path**. Your career path includes the steps you need to take to reach your career goal.

How do you pick your career goal? You can try one of the following:

- **Volunteer for organizations that interest you.** This can give you experience in a field that you think you may want to work in.
- **Work.** If you can get a part-time job, this experience can also help you determine the activities you do and do not like to do on the job.
- **Get an internship.** An internship is an opportunity to work for a business or organization while in school or considering a career. Sometimes these are paid, sometimes they are not. In addition to gaining experience and skills, you may develop important professional contacts and references.
- **Set up informational interviews.** Talk to people who are in the career you envision for yourself.



KEY RESOURCE

GUIDANCE COUNSELORS AND ACADEMIC ADVISORS

Guidance counselors and academic advisors are good people to have in your network. While in high school, guidance counselors can help you with your academic, personal/social and career development needs.

Specifically, they are available to help you:

- take the right courses in high school;
- get registered for tests such as the ACT and SAT exams;
- meet financial aid deadlines during your senior year of high school;
- get your academic records in order before you leave high school; and
- set personal goals and develop plans.

You need to seek these services from the counselors especially if you want one-on-one help.

Name and contact information for guidance counselor:

Once you are in a postsecondary training or education program, you will have access to academic advisors who can help you:

- understand the requirements of your major(s), plan your schedule of classes (so you take the right classes you need in the correct order to complete your certificate or degree);
- explore education and career opportunities;
- get the information and tools needed to track your progress; and
- receive other services you may need.

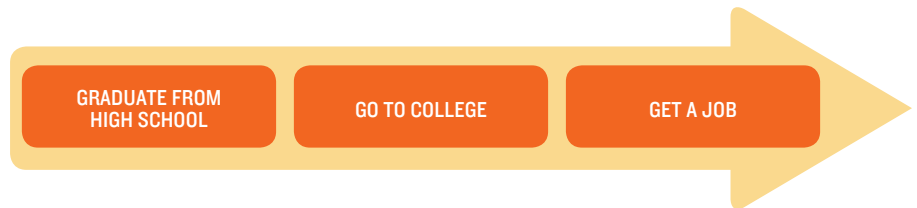
Name and contact information for academic advisor:

Establishing and maintaining relationships with school guidance counselors and academic advisors can help increase your chances of success as you pursue your training, education and career goals.

- **Take classes.** While in high school, take classes that interest you. In some states, you can take tuition-free classes at community colleges, public career technical schools or universities while you are in high school. This is called concurrent enrollment. This can help you explore interests and earn college credit at little to no cost.
- **Take interest surveys.** This generally means meeting with your high school, vocational school, community college or university guidance counselor or academic advisor. They often have access to interest and career surveys. These surveys are designed to help to identify careers that best match your interests, skills and values.



People often think of a career path as:



There are many other paths to careers:



Source: Efrid, B. M., & Wiggins, B. S. (2004). *Career development resource guide and user's guide for "career choices in North Carolina."* Raleigh, NC: State Occupational Information Coordinating Committee. Retrieved from <http://digital.ncdcr.gov/cdm/ref/collection/p249901coll22/id/436170>



- **On-the-Job Training**

Go to work for a company or business that will train you as you work on the job. Many people who decide not to go postsecondary school gain experience and opportunities for career advancement through on-the-job training.

- **Apprenticeship**

Apprenticeship means working under someone else who is experienced in a field. As an apprentice, you are supervised by a master in the craft, trade or occupational area. The relationship is formal. Generally, as an apprentice, you complete a three- to four-year training program that combines on-the-job training with related technical and educational instruction. Apprenticeships may be available through unions and in the automobile service, construction, general service and manufacturing fields.



- **Public or Private Vocational or Career/Technical School**

Short-term training is available for occupations ranging from cosmetology to welding to computer programming and cyber defense and more at vocational and career/technical schools. Usually there are no special entrance requirements. Costs and length of programs vary. Purchase of special tools may increase costs. Private, for-profit schools are much more costly than public schools.

- **Community College**

Community colleges specialize in providing a wide variety of short-term vocational or technical certificate or degree programs. They tend to work very closely with businesses and industries in the area they serve so they can train people to work in these businesses and industries. You can start at community college and then transfer to a college or university offering a four-year degree.



- **Four-Year College**

Most colleges and universities are four-year colleges. Entrance requirements are based primarily on high school grades and college entrance test scores (ACT or SAT).

- **Military**

The military offers training, pay, room and board and benefits in exchange for service to the country. Ask your military recruiter about the types of training available, qualifications for training, length of commitment required and pay and benefits. High school graduation is required. This may make you eligible for the GI Bill, which will help pay for more training and education after your military service.

Career Research

Learn more about your intended career by doing some research. Often, the focus is on getting into college without thinking about how college education (or some other kind of training) is linked to careers.

A key consideration is figuring out whether your chosen career is likely to support you. With the likely starting wage, will you be able to pay for your basic living expenses?

These include:

- + housing;
- + utilities;
- + food;
- + transportation;
- + health care;
- + emergency savings;
- + student loan payments, if applicable;
- + other debt payments, if applicable; and
- + other expenses that may apply to your situation — child care, for example.

If you find that your likely starting wage is not going to cover your basic living expenses, you can do these things:

- + Research to see if you will at some time in the future be able to earn enough in your given career. Starting wages — what someone is paid in their first job — are often less than what someone could potentially earn. Look at median wages for your chosen career to get an idea of what your earnings potential could be.
- + Determine whether you can reduce any basic expenses.
- + Identify work support benefits that could assist you while you start in your career.
- + Examples include:
 - SNAP benefits;
 - public housing;
 - child care support — this applies only if you have children; and
 - energy assistance programs — you can apply for these to help pay for utilities.

To check what benefits you may be eligible for, visit www.benefits.gov.



CAREER RESEARCH

Career research can help you pick the right training and education. How?

By researching careers, you will understand:

- 1) What is expected of you in terms of knowledge, skills, certifications and other credentials when it comes to working in your chosen field.
- 2) The right training and education path to your career goal.
- 3) The amount of money you can expect to make in your career — starting out and in general.
- 4) The conditions under which you will likely work.
- 5) The different kinds of job opportunities within your career.
- 6) The outlook for your career — are there going to be more or fewer job opportunities in your career?

WRAP UP:

Understanding Your Income

Congratulations on finishing this section of *Keys to Your Financial Future*.

Let's check what you learned:

1. What are examples of where income can come from? (select all that apply)
 - a. Part-time employment
 - b. Self-employment
 - c. Public benefits
 - d. Gifts
 - e. Tax refund

2. How you are paid — hourly, salary or under the table, for example — affects how you report income, how you pay taxes and the laws that protect you.
True False

3. Regular income is harder to budget with. You cannot anticipate the amount of income or when you will get it.
True False

4. Direct deposit will save you time and money and give you access to your funds right away.
True False

5. Net pay is the total amount of your paycheck. Gross pay is your net pay minus deductions. Gross pay is what you take home.
True False

6. If you are employed, your employer will withhold money from your paycheck to pay for taxes. Your employer will also pay half of what you owe for Social Security and Medicare.
True False

7. Tax credits lower the amount of income you are taxed on. Tax deductions lower the amount of tax you owe.
True False

8. What are paths to building a career? (select all that apply)
 - a. On-the-job training
 - b. Apprenticeships
 - c. Military
 - d. Career or technical college
 - e. All of the above
 - f. None of the above

Key Information From This Section

INCOME is any money you earn.

WAYS YOU CAN BE PAID include a salary, hourly wages, contractually or under the table among others. How you are paid affects how you report income, how you pay taxes and the laws that protect you.

YOUR INCOME CAN BE REGULAR if the amount and timing is the same. Often, income is irregular — when you are paid is unpredictable or the amount changes. Irregular income can make budgeting challenging. If you work seasonally (during part of the year), you may have to save money to get through the months you don't have income.

WHEN IT COMES TO RECEIVING A PAYCHECK, you can get your pay via a paper paycheck, direct deposit or payroll card. Each has benefits as well as costs or risks.

REVIEW YOUR CHECK STUB. It has a lot of information on it, and you can ensure you are being paid correctly.

YOU PAY INCOME TAXES on the income you earn every year. If you are employed, your employer will withhold income to pay for your income taxes. You can tell the employer how much to withhold when you complete the W-4 form. The more exemptions you claim, the less income will be held for taxes. Your paycheck is bigger, but you may owe more income tax than was withheld from your pay on April 15. This means you send money to the IRS.

LEARN ABOUT DEDUCTIONS AND CREDITS you may be eligible for. Deductions lower your taxable income. Credits lower the amount of taxes you must pay.

GET FREE HELP TO COMPLETE YOUR TAXES in your community using a Volunteer Income Tax Assistance program. Avoid using commercial tax preparers and refund anticipation loans. You will end up paying a lot of your hard-earned money.

YOUR INCOME IS RELATED TO YOUR CAREER. The more training and education you have following high school, the higher your earnings potential and the less likely you are to become unemployed.

THERE ARE MANY DIFFERENT PATHS to starting and building a career.



ABOUT THE ANNIE E. CASEY FOUNDATION

The Annie E. Casey Foundation is a private philanthropy that creates a brighter future for the nation's children by developing solutions to strengthen families, build paths to economic opportunity and transform struggling communities into safer and healthier places to live, work and grow.

For more information, visit www.aecf.org.

ABOUT THE JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

A unit of the Casey Foundation, the Jim Casey Youth Opportunities Initiative® works to improve outcomes for all young people in the United States ages 14 to 26 who have spent at least one day in foster care after their 14th birthday — a population of nearly 1 million.

Working with 17 sites across the country, the Jim Casey Initiative influences policy and practices to improve outcomes for teenagers and young adults who have experienced foster care as they transition to adulthood.