

## MODULE 9

# Forget Stocks, Let's Talk:

# Investing In Your Income

Everyone tells you that saving is critical for the future, but is investing better when trying to generate long-term wealth? This module explains the difference between investing & savings, how banks make money by taking risk, and why you can do the same by evaluating companies for their long-term growth potential in order to make your money work smarter for you than for a banker.

POWERED BY



# ★ Key Takeaways From This Module



## Guiding Questions

- What happens when I get my first job and receive my first paycheck?
- Are there different types of income and do they have different tax rates?
- What happens if I don't pay my taxes?
- How does the economy impact your career & ability to switch jobs?
- What is opportunity cost and how can it impact the way you make decisions?
- Is college worth the investment to earn more?
- How can I get a student loan to help pay for college and what things should I consider?

## Enduring Understandings

- Taxes are an inescapable part of earning income, and it's important to pay them or else you can face fines and considerable jail time.
- Capital gains taxes are considerably lower than income taxes.
- Avoiding taxes is illegal and you can go to jail for tax evasion if you do not pay up!
- Investing in yourself by developing new skills and obtaining higher education pays off.
- FAFSA is a great resource for college students who are looking for financial aid to pay tuition.
- Donating to charity can help lower your taxes.

# Your First Paycheck



**When you get your first paycheck, you may be a little disappointed by how much is on the check versus how much your salary pays you. The reason why? Taxes.**

In the US, income is reported to the IRS on either a Form W2 or 1099, depending on whether the individual is an employee or self-employed, and is subject to federal income tax, Social Security taxes and Medicare taxes. This is roughly 30% of your paycheck.

For self-employed individuals, income is typically reported on a Form 1099 and is subject to income tax and self-employment taxes.

The type of form used for reporting affects how the taxes are calculated; both forms require different calculations.

If you received from both sources in the same year, you must report both sets of income your tax return and calculate accordingly.

YOUR NAME  
213 ABC ST.

DATE \_\_\_\_\_ 521

**PAY** \_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ DOLLARS

MEMO \_\_\_\_\_





# Taxes & Ways To Describe Income

**There are many different types of income, each type subject to different tax rates. Taxes have a significant impact on the amount of money an individual takes home from their paycheck.**

**Gross income:** The total amount of money someone earns before taxes and deductions, including all wages, dividends, bonuses, and more.

**Net-Pay:** Income that remains after deducting taxes. The amount of tax withheld depends on several factors, including filing status, income level, and number of withholding allowances.

**Net Income:** The amount of money which remains after all expenses and taxes have been paid.

It is important to understand the difference between gross & net income in order to make better decisions about their finances.

*Employers must take money from employees' paychecks, for taxes, insurance, retirement contributions, Social Security, Medicare, health insurance, union dues and charitable donations.*

*Depending on the state, local governments may also impose payroll deductions for disability, workers' compensation and unemployment insurance.*





# How To Calculate Taxes On Your Income

**Investment gains are the profit made from selling an asset at a price higher than the purchase price.**

- Realized gains refer to profits from investments that have been sold, while unrealized gains are potential profits from investments still owned.
- Short-term capital gains (assets held for less than a year) are taxed as regular income, because they are viewed as income from day-trading.
- Long-term capital gains (assets held for more than a year) are taxed at a reduced rate because long-term investments are beneficial for the economy.
- The U.S. uses a progressive tax system meaning higher income earners are taxed at a higher rate for both short and long term gains.

## THINK ABOUT IT

- What's the difference between realized and unrealized investment gains? Why are there some advantages to unrealized gains?
- How does your tax bracket influence the taxes you pay on your investment gains?
- Why are short-term capital gains taxed as regular income while long-term capital gains are taxed at a lower rate?



# Short & Long Term Gains

## Short Term Gains

Less Than 1 Year Investment Duration  
Taxed As Normal Income

**~30%**

## Long Term Gains

Longer Than 1 Year Investment Duration  
Taxed At A Lower Rate

**~15%**

### THINK ABOUT IT

- Why are short-term gains taxed at a higher rate than long-term gains?
- How does holding an asset for more than a year impact the tax on the gain?
- Why do you think investing for the long-term helps with your taxes?



# Steps To Calculate Taxes On Investments

## 1. Figure out your cost basis

Multiply the quantity of shares and the price per share.

## 2. Figure out your Exit Price

Multiply the quantity of shares and the current share price.

## 3. Determine Your Appropriate Tax Treatment & Rate

Depending upon how long you were invested, you will either have to pay short-term or long-term capital gains taxes, which have different rates associated with them!

## 4. Calculate Your Gross Profits

Subtracting Cost Basis from Exit Price will show you the gross gain made on the investment. Once you have this gain, multiply it by the tax rate and that's how much you owe in taxes!

## 5. Calculate Your Net Income

Now that you understand how much you have to pay in taxes, we need to figure out how much of our profits are actually left over. Subtract your tax expenses from your gross profits, and you're left with your net income!





# Why Do We Pay Taxes?

**Taxes and fees are typically collected by the federal, state, or local government depending on the type of tax, including: income taxes, payroll taxes, property taxes, and sales taxes.**

Taxes are a necessary and important source of revenue for the government and help pay for essential public services including education, healthcare, infrastructure maintenance, social welfare programs, national defense, and other critical functions.

Taxes also help maintain economic stability by allowing for fiscal responsibility. With sufficient tax revenue, the government can pay for its various services and keep spending under control.

Taxes also enable governments to provide targeted assistance to certain segments of the population that need it most—such as low-income households or rural areas—which helps reduce economic inequality overall.







**Just Don't Forget...**

# You Must Pay Taxes

Taxpayers who fail to pay their taxes may face a 25% penalty of their unpaid tax liability. They may be subject to interest charges on all unpaid taxes, which can quickly accumulate and add up to a significant amount.

If the unpaid taxes are not paid within a certain period of time, then the taxpayer may face criminal prosecution for tax evasion. Individuals who do not pay their income tax could also have their assets seized by the government!





# Lowering Your Taxable Income

People donate resources for different reasons, such as wanting to help the community or because of moral or religious beliefs, however, there are also financial benefits for donating, since it can help lower your taxes.

## When Researching A Charity:

- Research the organization's history and mission statement to ensure their values align with your own beliefs.
- Investigate the organization's financial stability by looking up their IRS Form 990, which is an annual report detailing the organization's finances and governance.
- Research how much of your donation will actually go to the cause by checking if there are any administrative or overhead costs associated with giving to that charity.
- Finally, ensure that your donation is tax-deductible by researching if the organization has received 501(c)(3) status from the IRS.



# Switching Jobs & Evaluating Employers



It is important to research employee benefit packages when considering potential employment and income opportunities. These benefits can include:

Health Insurance

Paid Vacation Time

Disability Insurance

Retirement Savings Plans

Life Insurance

Good employee benefits can help alleviate a lot of costs for you and make your salary go further than a company that has poor benefits.

In addition to researching potential benefits, it is important to investigate income opportunities offered by employers. This includes salary information and any bonuses or incentives that may be available.

# How The Economy Impacts Employment



**The economy is important to consider when looking for a job, because strong economies usually lead to more job openings and higher wages, while weak economies can cause fewer job openings and lower wages.**

This means that switching jobs during a bad economic period is considerably harder than switching while the economy is doing well.

Labor markets are affected by more factors than simply the economy, such as globalization, technological advances, education levels, and aging populations.

Economic and labor market conditions play a major role in determining income, career opportunities, & employment status.

These conditions are affected by various internal and external factors such as inflation rates, economic policy changes, technological advances, global competition & demographic shifts.







# How Technology Impacts Employment

**Since the industrial revolution, there has been debate over the impact of technological advances on employment and income.**

In recent years, technology has drastically changed how people work and earn money. The rise of automation in factories and offices has allowed businesses to significantly reduce their labor costs, leading to job losses for many workers.

Technology has also brought about new ways to earn income, such as through freelancing websites or by providing services.

This can provide opportunities for people who are willing to learn new skills and adapt to market changes.

The internet has made it easier for entrepreneurs to start businesses and new markets have been created through online platforms like Amazon and eBay



# Key Takeaways From This Module



## CORE & FUNDAMENTALS

- Taxes are an inescapable part of earning income, and it's important to pay them or else you can face fines and considerable jail time.
- Investing in yourself by developing new skills and obtaining higher education pays off.
- FAFSA is a great resource for college students who are looking for financial aid to pay tuition.

## APPLIED KNOWLEDGE

- Investing in yourself by developing new skills and obtaining higher education pays off.
- Avoiding taxes is illegal and you can go to jail for tax evasion if you do not pay up!
- Donating to charity can help lower your taxes.
- Using opportunity cost to evaluate options can help make the most financially-sound decisions.

## RELEVANCE FOR YOU

- Whenever you earn income, you are responsible for understanding and paying the taxes associated with it.
- Investing in your education can help you increase your earning potential so that you can find a higher-paying job.
- It is important to understand how the economy is performing so that you can determine the best time to switch jobs or shift careers.

