

Net Income Budget Challenge

Chapter 1.3: Income and Taxes

Understanding Net Income for Budgeting

Creating a budget based on your net income (take-home pay) rather than gross income is essential for realistic financial planning. This worksheet guides you through creating budgets for different scenarios, helping you understand how to allocate net income effectively while balancing needs, wants, and savings goals.

Key Reminder: Net income is what you actually receive in your paycheck after taxes and other deductions. Always budget based on net income, not gross income.

Scenario 1: First Job After High School

Your Situation:

You've just graduated high school and started your first full-time job with a monthly net income of **\$2,200**. You're living at home with your parents, who charge you \$400/month for rent and utilities. You're responsible for your own transportation, phone, food, entertainment, and other expenses. You want to start saving for your own apartment.

Monthly Budget Plan

Category	Amount (\$)	% of Net Income	Notes
Housing/Utilities	<input type="text" value="400"/>	18.2%	Paid to parents
Transportation	<input type="text"/>		
Food	<input type="text"/>		
Phone/Internet	<input type="text"/>		
Entertainment	<input type="text"/>		
Clothing	<input type="text"/>		
Savings: Apartment	<input type="text"/>		
Savings: Emergency	<input type="text"/>		
Other	<input type="text"/>		
TOTAL	<input type="text" value="2200"/>	100%	

Reflection: How did you prioritize your spending in this budget? What categories were most important to you and why?

Scenario 2: Starting Career with Student Loans

Your Situation:

You've graduated college and started a new job with a monthly net income of **\$3,500**. You have \$25,000 in student loans with a monthly payment of \$280. You're renting an apartment for \$1,100/month (including utilities) and have a car payment of \$320/month. You want to start building your emergency fund and saving for retirement.

Monthly Budget Plan

Category	Amount (\$)	% of Net Income	Notes
Rent/Utilities	<input type="text" value="1100"/>	31.4%	Fixed expense
Car Payment	<input type="text" value="320"/>	9.1%	Fixed expense
Student Loan Payment	<input type="text" value="280"/>	8.0%	Fixed expense
Car Insurance/Gas	<input type="text"/>		
Food	<input type="text"/>		
Phone/Internet	<input type="text"/>		
Entertainment	<input type="text"/>		
Health Insurance/Medical	<input type="text"/>		
Retirement Savings	<input type="text"/>		
Emergency Fund	<input type="text"/>		
Other	<input type="text"/>		
TOTAL	<input type="text" value="3500"/>	100%	

Reflection: This scenario has several fixed expenses. How does that impact your flexibility in other spending categories? What strategies could help you manage these constraints?

Scenario 3: Design Your Own Budget

Your Ideal Situation:

Create a realistic budget based on a career you're interested in pursuing. Research the typical starting salary for this career, estimate the likely deductions, and then create a monthly budget based on that net income. Be sure to include realistic expenses for your geographic area.

Selected Career: _____ Monthly Net Income: \$_____

Monthly Budget Plan

Category	Amount (\$)	% of Net Income	Notes
Housing/Utilities	<input type="text"/>		
Transportation	<input type="text"/>		
Food	<input type="text"/>		
Insurance	<input type="text"/>		
Debt Payments	<input type="text"/>		
Entertainment	<input type="text"/>		
Savings: Emergency	<input type="text"/>		
Savings: Retirement	<input type="text"/>		
Savings: Goals	<input type="text"/>		
Other	<input type="text"/>		
TOTAL	<input type="text"/>	100%	

Reflection: How does creating a budget based on your desired career help you understand the financial realities of that choice? Did anything surprise you about the expenses or allocation?

Budget Guidelines

While everyone's situation is unique, here are some general guidelines for budget allocation that many financial experts recommend:

50/30/20 Rule

Category	Percentage	Description
Needs	50%	Housing, food, utilities, transportation, minimum debt payments, insurance
Wants	30%	Entertainment, dining out, hobbies, subscriptions, travel, non-essential shopping
Savings/Debt	20%	Emergency fund, retirement, extra debt payments, other savings goals

Another Common Budgeting Framework

Category	Recommended %	Description
Housing	25-35%	Rent/mortgage, utilities, property taxes, maintenance
Transportation	10-15%	Car payment, insurance, gas, maintenance, public transportation
Food	10-15%	Groceries and dining out
Savings	10-20%	Emergency fund, retirement, other goals
Utilities	5-10%	Electricity, water, gas, internet, phone
Entertainment	5-10%	Streaming services, hobbies, events
Debt Repayment	5-15%	Credit cards, student loans, personal loans (beyond minimum payments)
Insurance	5-10%	Health, life, disability (not included in payroll deductions)

Personal/Miscellaneous	5-10%	Clothing, personal care, gifts
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Reflection: How do your budgets compare to these guidelines? Are there categories where you consistently allocated more or less? What factors influenced those decisions?

Budget Adjustment Challenge

Life often throws financial curveballs. Consider how you would adjust one of your budgets if faced with these scenarios:

Scenario A: Your hours get cut, reducing your monthly net income by 20%. Which categories would you reduce first, and by how much? What strategies would you use to adapt?

Scenario B: You receive a \$200/month raise (after taxes). How would you allocate this additional income? Explain your reasoning.

Scenario C: You face an unexpected medical expense of \$1,000 not covered by insurance. If you don't have enough in savings, how would you adjust your budget to cover this expense over the next few months?