

Making Stops Along the Road

As you head out on your journey through life, you will make many stops along the way. You'll need to fill up your tank many times, but this means that you have to have money. Without money, your trip will be a short one. Knowing how to manage your money efficiently is crucial. Being knowledgeable about your choices related to money, housing, and transportation will make each stop an enjoyable one. How much money do you need to live where you want? How can you set up a budget to manage your own money? How much money will an apartment cost? With whom do you want to live? You don't need to make any of these choices today, but you want to be learn about all of your choices to make the best possible decisions for you.

In this next section, you will set money management goals, learn how to set up a monthly budget, learn how to read a bank statement, practice writing checks and balancing your checkbook, and much more.

In this unit you will use the scientific process to:

1. Explore the world of Money Management.
2. Learn how to be a smart shopper.
3. Learn how to budget your money.
4. Examine different types of bank accounts and how to use them.
5. Learn how to write a check.
6. Examine taxes and social security.
7. Set a budget.



MONEY MATTERS

We all have a basic idea about what money is and why we need it. BUT, do we really know as much about money as we think we do?

How did modern money come to be? *Good money* needs to be valuable, easy to carry around, and easy to identify. It must last a long time, and you must be able to divide it easily. Primitive cultures used a variety of items as money: shells, stones, beads, and animal hides to name a few. The most useful money turned out to be precious metals such as gold and silver. We can track the origins of paper money and banking back to the practice of depositing gold coins with goldsmiths for safekeeping in exchange for a paper receipt. People quickly learned that it was easier to just exchange the receipts rather than take the receipt back to the goldsmith, get their gold, trade the gold for goods, and then have the seller redeposit the gold with the goldsmith and get another receipt. We no longer use gold coins as money, but our money today is indeed easy to carry, identify, and divide. We all know what our coins and dollars are worth.

Why do we need money and what makes it so easy to use? Consider the following, let's say that you are a music teacher. You decide that you want to go to a baseball game. You take your money and buy a ticket. All of the people involved in putting on that baseball game are willing to accept your money because they know what it is worth and that they can spend it on something they want or need.

What if money didn't exist? You could barter which means to trade something without using money. Great idea! You could trade music lessons for a baseball game. The trick would be to find two teams, an umpire, and a stadium owner who wanted music lessons. This is not necessarily an easy task. (Wow, aren't you glad we have money?)

Money is used as a way to pay for "things" we want or need. "Things" can be medicine, a hair cut, movie tickets, or a pair of designer jeans.

Money plays another important role: it acts as a way for us to keep track of things. Let's go back to our baseball game. Think about keeping track of the runs scored. One way would be for the umpire to give some kind of token – maybe a coin or a piece of paper – to each player who scores a run. The team with the most tokens at the end of the game wins. Another way we could keep track of the score would be to use marks on a scorekeeper's card, numbers on a score board, or even numbers stored in the scorekeeper's computer. Money is how we keep track of who has earned an income and who has spent their income. The dollar is the name of the token we use to keep track of the score, and our computerized score card is our bank account. **Okay, let's take a look at OUR money personalities.**

"PBS: Electric Money – Before Computers: How Money Evolved." Internet.
[Http://www.pbs.org/opb/electricmoney/before_computers/how/page2.htm](http://www.pbs.org/opb/electricmoney/before_computers/how/page2.htm). 2001



SURPRISE GIFT WORKSHEET

You just got a surprise gift of \$100! What will you do with it?

- Spend it right away for something I want** – “I really want that new CD.”
- Spend it right away for something I need** – “I really need a new calculator for math.”
- Use it to get more money out of Mom or Dad** – “That CD player I’ve been wanting is \$175. I wonder if Mom or Dad will give me the extra \$75?”
- Spend some/save some** – “I want to go to college, so I’ll put some of this money in my bank account. It’s also important to have a little fun, so I’ll spend some of it on going out to dinner and a movie with a friend.”
- Help someone out** – “Our rent went up \$50 a month. Mom doesn’t know how she’s going to pay for it. This money could help her out for a couple of months.”
- Save it all** – “A penny saved is a penny earned. If I put this into my bank account it will earn interest, and I’ll have money when I really need it.”

With money, you always have choices of how to use it.
What will your choices be? Why will you make these choices?

Peterson, Shirley. University of California, Cooperative Extension. “Money Talks....Should I Be Listening?” July 1999. Online. Internet. 11 September 2003.

Our Money Personality

Have you ever stopped to think why you spend your money the way you do? If your answer is “no,” now’s the time to give it some thought. Our “money personality” is a combination of our *money beliefs* and *our values*.

Our beliefs about money influence our spending decisions. A belief is a person’s opinion about something, something like money. Maybe you believe that by saving money you will be more financially secure, or maybe you believe that having a lot of money will bring you lifelong happiness.

Think about your money beliefs. Are they based on fact or fiction? Let’s find out.



Common Money Beliefs — Fact or Fiction

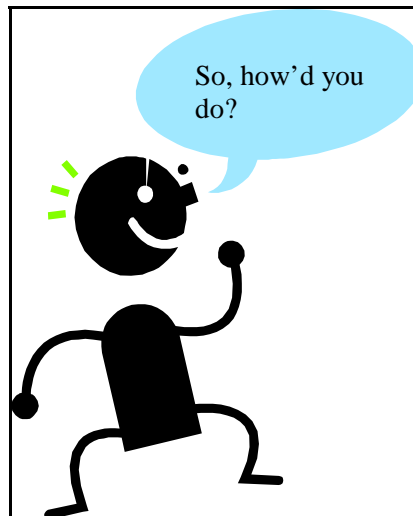
The following are some common beliefs about money. Do you think they are based on **Fact** or **Fiction**?

1=Fact

2=Fiction

3=Not Sure

- _____ 1. There are checks in the checkbook, so there must be money in my checking account.
- _____ 2. Paying the minimum on a credit card bill is a good money management practice.
- _____ 3. Having a lot of credit cards shows that you are an important person.
- _____ 4. Almost everyone can find at least one easy way to save money.
- _____ 5. In the grocery store, the food displays at the end of the aisles are the best buys.



Peterson, Shirley. University of California, Cooperative Extension. "Money Talks...Should I Be Listening?" July 1999. Online. Internet. 11 September 2003.



Common Money Beliefs Answers

















- 1. Fiction.** The number of checks in a checkbook does not correspond with how much money is in the account. The amount of money in your account is determined by how much money you deposited in the account, the total value of cash withdrawals, and the value of checks written.
- 2. Fiction.** Paying the minimum balance on credit card accounts is a very costly way to pay your bills. Only a very small amount of the minimum payment is used to pay off your bill. The rest goes to paying interest on the money you borrowed.
- 3. Fiction.** Having lots of credit cards does not make you an important person. Getting a credit card simply means you have met the minimum requirements set by the credit card company.
- 4. Fact.** Almost everyone can find simple ways to save money. The trick is to find ways that work for you.
- 5. Fiction.** Just because something is displayed at the end of the aisle does not mean it's a good buy. Grocery stores have found that most products sell better if they are displayed at the end of the aisle – whether or not they are the best buy.

Money Values

Let's talk a little about your *money values*. A value is something that is very important to you. Maybe you value family, friends, education, or freedom. A value is not good or bad; it's just something that is important to you. Your values are formed from hearing about the values of people around you (family, teachers, peers), from observing what happens to other people, and from your life experiences. Values will influence how you spend or save your money. Interestingly (and maybe even thankfully), your values are likely to change during your life. What are your Money Values? Shall we find out?

Money Value Survey

This survey will help you learn what you value about money. Read the following value statements. Circle the symbol at the end of each statement if you definitely agree.

1. It's a good feeling to have money in my pocket. 
2. No one can really have enough money or things. 
3. Clothing should look expensive. 
4. You can't live without credit. 
5. There are a lot of things which are more important than money. 
6. Keeping track of every dollar would drive me crazy. 
7. It's important to record every dollar you spend. 
8. Money and popularity go hand in hand. 
9. A person can get along without a saving account. 
10. It would be wonderful to be a millionaire – all that money to spend. 
11. It's easy to have fun with simple things that do not cost much money. 
12. Money should only be spent for necessities. 
13. I want nothing but the very best. 
14. If I just wait, my money problems will either go away or take care of themselves. 
15. Money doesn't buy happiness. 
16. Nothing is too good for me. 

17. It would be easy to spend \$5,000 in just a couple of days. 🏠
18. It's nice to make gifts, even if I can afford to buy them. ✎
19. I shop around to find the best price. 🎯
20. If I need money, it will come from somewhere. 🌀
21. I won't buy anything unless I have enough money for it. 🎯
22. Buying at the best stores is important. ✂
23. Happiness is buying something brand new. 🏠
24. A lot of money would be nice, but I don't really need it. ✎
25. I don't even try to make plans about money. 🌀

What does it all mean?

Add up the number of each symbol you circled and write that number below:

🎯 _____






✂ _____

🏠 _____

✎ _____

🌀 _____

Let's find out what those little icons tell you about how you value money.

- ◆ If you circled 3 or more  , you value money for the *security* it provides you.
- ◆ If you circled 3 or more  , you value money for the *importance* and power it can bring you.
- ◆ If you circled 3 or more  , you value money because *you have many wants* and/or *you like to pamper yourself*.
- ◆ If you circled 3 or more  , you believe that money is *unimportant by itself* – what is important is that money helps you in becoming yourself.
- ◆ If you circled 3 or more  , you are *not concerned* about money and feel there is no reason to worry about it.

Don't worry if you circled 3 or more in several categories. Many people have several values about money.

Do you find yourself asking, "Why did I just do that silly exercise?" I'm so glad you asked! Knowing how you feel about money is the key to understanding why you spend or don't spend money.

Now that we know a little more about money and have a better understanding of how we feel about money, let's talk about one of our favorite activities...***Spending Money and being a Smart Shopper!***



Smart Shoppers

We all know how to spend our money, but most of us could use a few pointers in how to be **Smart Shoppers**. Being a Smart Shopper is getting what you need at the best price, also known as getting a good value for your dollar. What tips would you give someone who wants to be a good shopper? Here are a few quick tips that can help:

- ◆ Find out about your favorite store's sales. Most stores have a pattern to their sales. These patterns decide not only what will go on sale, but when. Ask a sales clerk when the best deals will be available.
- ◆ Read the fine print. Be sure to read the small print on sale ads. The small print usually tells you the sales dates, if there are any extra costs, and what is or is not included in the sale. Be sure to read and understand the ads before you go shopping so you can get the best deal.
- ◆ Think, think, and think again. Impulse shopping is a common habit. Almost everyone has purchased something on the spur of the moment and later wished they hadn't. Prevent buyer's remorse; don't buy unplanned purchases on the spot. Go home and think about the purchase overnight. If you need help in deciding whether or not to buy something, ask yourself these questions and be sure to answer honestly: Why do I want this? Do I need it? How long did it take me to earn the money I will spend on it? Do I already have one?
- ◆ Wait. Sure, you may want something right now, but in a few weeks (or months) you may get it for much cheaper. You, and millions of other people, may want hot items like CDs, movies, or popular electronic products. In just a short time, when millions of these items are being produced, prices will drop and you will be able to get the product for a better value. In the meantime, see if you could borrow a friend's. You may surprise yourself and find out that you don't really like it as much as you thought you might.
- ◆ Be prepared. When you go into a store to buy electronics, remember that some stores are willing to match or beat prices from other stores. Call different stores to compare prices and models. Be sure to ask about return policies. Before you head out, prepare yourself with ads and a cool attitude, one that doesn't let on how much you want the item.
- ◆ Take it back. Don't be afraid to take something back just because it broke. In most cases, stores will take back defective items and refund your money *IF* you have your receipt. If it has been too long to return the purchase for a cash refund, some stores will allow you to exchange the broken item for the same new item. Other stores may offer you a store credit. Don't be embarrassed to ask; most stores want their customers to be happy. Remember to be honest...don't just take something back because you have grown tired of it.



- ◆ Save before you buy. Why not make money before you spend it? Saving is important for *Smart Shoppers*. You must set money aside before you make those BIG purchases. Talk to friends, your parents, and bank representatives to find out which banks and savings plans offer the best interest and which banks don't charge fees. Choose a bank that is convenient for you to use.

Practice good shopping habits; sometimes they take a little time to change. Just remember how much money you can save by being a *Smart Shopper*. Are you ready to find out if you're a *Smart Shopper*?

Smart Shopper Survey

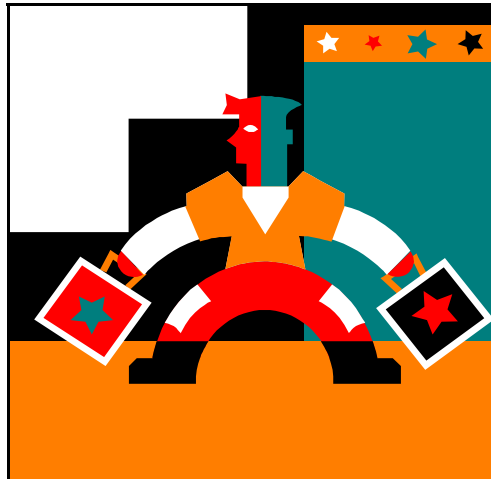
Please choose the most appropriate response.

1=Fact

2=Fiction

3=Not Sure

- _____ 1. All advertisements are true; no one would try to trick me out of my money.
- _____ 2. Being a Smart Shopper takes practice. If I try to understand that I might fail once in a while, I can do it.
- _____ 3. If I buy something and then decide that I don't want it, the store must exchange it if I bring it back the next day.
- _____ 4. Since one store is selling a CD for \$18.99, then all other stores are selling it for the same price.
- _____ 5. If it is pictured on the package, then it is in the box.





Smart Shoppers Survey Answers

1. Fiction. Advertisements are not supposed to fool the consumer purposely, but many companies use fine print, pictures, and wording to trick the consumer into believing that the product is different than what it really is.

2. Fact. With practice and determination, you can be a Smart Shopper.

3. Fiction. Stores have the right to refuse returns, refunds, or exchanges. In these cases, the store must post a sign or inform the customer on the receipt. Most stores do have a refund policy, so don't be afraid to ask.

4. Fiction. Prices vary from store to store. Check around for the best price before you buy.

5. Fiction. A picture can make an item seem larger than it really is or look like it includes different features than it really has. Always ask to see what is in the box and how it works before you buy it.

Did you get most of these correct? If so, you are well on your way to being a Smart Shopper. Did you miss some? Don't worry! You can use the information you have just learned to start on the road to being a Smart Shopper.

Remember that you have the power over what you buy and how much money you spend. Don't be fooled by ads or sales clerks who try to make decisions for you. You have the power to walk out of one store and into another to get the best deal, so do it!

Now that we have learned some great tips for being Smart Shoppers, let's talk a little about *needs versus wants*. Do you know the difference between *need* and *want*? *Needs* are things you must have to survive such as housing, food, and clothing. *Wants* are things that you would like to have, but you can do without such as the hottest new CD, a video game, or a milk shake. No doubt you can come up with a great list of personal things you *need* versus the things you *want*.

Peterson, Shirley. University of California, Cooperative Extension. "[Money Talks...Should I Be Listening?](#)" July 1999. Online. Internet. 11 September 2003.

Budgeting

Needs versus wants provide a great discussion topic. How do we make sure that we have enough money to cover our *needs* and have some left over for our *wants*? It's called the art of **budgeting**.

Budgeting is a fact of life for all of us. Some people may look at budgeting as something unpleasant. Let's look at it in a more sophisticated way: **money management**. Being a good money manager means that you have control over your money. It takes a little practice and discipline at first, but in no time you can be traveling down the road to financial security.

If you are going to be an expert money manager, you have to become familiar with the lingo or language of good money managers. First, you need to identify your *expenses*. *Expenses* are those items that will cost you money. There are three types of expenses: fixed, flexible, and discretionary. Fixed expenses are those things that occur every month and cost you the same amount of money every month, such as rent, loans, insurance, and savings. Savings is considered a fixed expense because you need to set money aside regularly for major or unexpected expenses. Flexible expenses are those things that occur every month, but the amount may change each month. These include things like groceries or long distance phone bills. Discretionary expenses are expenses that you choose to have such as the cost of new clothes, going to the movies, or purchasing gifts. Flexible and discretionary expenses are the things that can most easily eat into your money management plan.

The good news is that these expenses are also the easiest to juggle in times of financial difficulty. Take a look at the *List of Expenses*. This list may help to guide you as you think about your own financial plan.



List of Expenses

Clothing:	The cost of shoes, clothing, under garments, accessories, and dry cleaning.
Contributions:	Contributions made to your church or special charities.
Credit Cards:	Any credit card debt.
Education:	The cost of tuition and fees, books, cafeteria, and supplies.
Entertainment/ Recreation:	The cost of cable (TV or internet), satellite, videos/CDs/DVD's, movie tickets, eating out, parties, and club or membership fees.
Groceries:	The cost of food, beverages, and toiletries.
Health Care:	The cost of health insurance, medicines, continency products, special foods or formulas, medical supplies, dental and medical visits, and eye doctor visits and glasses.
Household/ Expenses:	The cost of linens, cleaning supplies, laundry soaps, small appliances, and home deco items.
Gifts:	The cost of gifts (birthday, wedding, holidays, etc.).
Housing:	This would be rent, mortgage payment, real estate taxes, renters or homeowners insurance, and home maintenance costs.
Loans:	Any personal loans, car loans, loans for furnishings or appliances, student loans, or loans for computer equipment.
Miscellaneous:	The cost of newspapers, magazine subscriptions, and pet care.
Personal Care:	The cost of haircuts or styling, grooming aids (shampoo, deodorant, razors, soap, shaving cream, etc.), cosmetics, and contact lens supplies.
Savings:	Prepare for the cost of emergencies, retirement, and the purchase of LARGE items like home furnishings or electronics.
Transportation:	The cost of the bus, Dial-A-Ride, and taxi service. If you own a car; the cost of the car license / registration, gas, repairs, maintenance, parking fees, and automobile insurance. Also the cost to maintain and repair your wheelchair should be included.
Utilities:	The cost of your electricity, gas, water, and telephone service.



Vacation/Travel: The cost of transportation, hotels, meals, souvenirs, park entry fees, and entertainment.

Another term you need to know is *income*. *Income* is money that you receive from wages, allowance, or social security.

In order to set up a budget, you will need to know and list all of your expenses and income. This will help you in creating a money management plan that assures you are able to pay for all of your *needs* before spending money on your *wants*.

Shall we try our hand at budgeting?

Budgeting Worksheet

Use the budget below to answer the questions.

Dave's Budget

Monthly take home pay	\$ 1558.00
Monthly rent	\$450.00
Monthly utilities	\$100.00
Monthly car payment	\$210.00
Monthly grocery bill	\$250.00
Monthly insurance	\$100.00
Monthly clothing allowance	\$50.00
Monthly entertainment	\$100.00
Monthly savings	\$100.00
Money left over at end of month	\$198.00

Dave's salary is \$2,000.00 a month. After taxes are deducted, Dave takes home \$1,558.00 each month.

1. Which of Dave's expenses are fixed (monthly expenses that stay the same)?
2. Which of Dave's expenses are flexible (monthly expenses that may change each month)?
3. Which of Dave's expenses are discretionary (monthly expenses that you choose to incur)?
4. How much does Dave spend altogether on fixed, flexible, and discretionary expenses each month?
5. After Dave pays his fixed, flexible, and discretionary monthly expenses, how much does he have left over?

"Banking on Our Future." Wells Fargo Banks. 2001.



Let's see how you did.

1. Which of Dave's expenses are fixed?
Rent, car payment, insurance, savings
2. Which of Dave's expenses are flexible?
Utilities and groceries
3. Which of Dave's expenses are discretionary?
Clothing allowance and entertainment
4. How much does Dave spend altogether on fixed, flexible, and discretionary expenses each month?
\$1,360.00
5. After Dave pays his fixed, flexible, and discretionary monthly expenses, how much does he have left over?
\$198.00

Budgeting is not difficult. A budget is a financial plan that helps you to make the most of your money. Budgeting helps you do the following:

- ◆ Identify the amount of money you spend each month.
- ◆ Identify your expenses and spending habits.
- ◆ Prepare for major or unexpected expenses.
- ◆ Control how you spend your money.

In order to make a budget, you need to know the following:

- ◆ The amount of money you have coming in.
- ◆ The amount of money you have going out.
- ◆ A breakdown of your expenses: fixed, flexible, and discretionary.

In order to create a useful working budget, start by writing down ALL of your income (the amount you actually receive) and expenses for the next month (use the Income and Expenses worksheet provided). You may be surprised to see where your money has gone. Once you have collected a month's worth of financial data, use this valuable information to design a personal budget.

Designing Your Personal Budget

Begin by totaling your income and subtracting all of your expenses.

- ◆ Did you have money left over at the end of the month?
- ◆ Does your income cover your expenses?

Now go back and review each expense. Put your expenses in the correct category: fixed, flexible, or discretionary.

On your Personal Budget Worksheet:

- ◆ List those fixed expenses that must be paid each month. Be sure to set money aside for savings.
- ◆ List your monthly flexible expenses. Don't forget personal care items and medical expenses.
- ◆ Write down your discretionary expenses. Remember to include money for clothing.

It is very important that you pay your fixed and flexible expenses in order to maintain a good credit payment history. To maintain a good credit payment history, make sure you pay your bills on time and pay the amount billed. Stay tuned for more information about credit.

If your expenses exceeded your income or if you are looking for ways to save more money, determine which expenses can be decreased or even eliminated. Examples might be: do not eat out as frequently, limit the purchase of unnecessary items like CDs or video rentals, don't go to the movies as often, purchase only the groceries you really need - leave out the soda and junk food, and don't stop for that morning coffee.

Decide what expenses you will eliminate and what expenses you will decrease. Set the amount that you will allow yourself to spend for the items you choose to decrease. Remember, the art of budgeting means that you take control of your money; you design your spending habits to fit your spending needs. Write down your money management plan. Keep it where you can see it and be sure to review it regularly. In no time, you will see positive results and will know that you are on the road to financial security!

Savings

We will now touch on an important item during our discussion of budgeting: **Savings**. Most of us agree that saving money is important. People save for retirement, college, emergencies, or even big purchases. It may seem challenging to set money aside for savings but there are easy ways to do it. Here are a few examples:

- ◆ Pay by cash or check.
- ◆ Check out books from the library instead of buying them.
- ◆ Wait and see a movie when it comes out on video.
- ◆ Buy clothes that can be washed instead of dry cleaned.
- ◆ Shop the sales.
- ◆ Take your lunch instead of eating at a restaurant.
- ◆ Make a shopping list for groceries and only buy the things on your list.
- ◆ Use e-mail instead of making long distance phone calls.
- ◆ Make long distance phone calls during off-peak hours.
- ◆ Shop for a good cell phone plan that offers free minutes and no roaming fees.
- ◆ Deposit gifts of money into a savings account.
- ◆ If you work, sign up for the savings plan at work; or ask your employer to take money from your paycheck and make direct deposits into your savings account.
- ◆ Use a bank or credit union that offers “no fee” savings and checking accounts.
- ◆ Don’t bounce checks.
- ◆ Don’t use credit cards unless you can pay the entire balance each month.
- ◆ Make your own greeting cards instead of buying them.
- ◆ Don’t buy things you really don’t need.

Where will you keep the money that you save? You could keep it at home in your drawer, or ask a family member to hold it for you. You would be less tempted to spend your savings if you kept it in a savings account at the bank. So you ask yourself, “What is a savings account?” A savings account is a place to keep your money safe while holding it for future purchases or emergencies. Why would you want to use a bank? When you deposit, or put money into a savings account, the bank pays you money, also known as interest, for as long as the money is in the account. What a great deal; the amount of money in your savings account grows!

Shop around and find a bank that works best for you: one that is close to home, offers the highest interest rate, and one who makes it easy for you to make a deposit. Some banks and credit unions require you to keep a minimum balance, amount of cash, in your account. Be sure to ask if there are any minimum balance requirements.

Once you have decided on a bank, you will need to go to the bank to open a savings account. This will require that you meet with a bank representative, fill out the necessary paperwork, and make your first deposit. The bank will give you a savings account register (see sample). This register will help you track your deposits and account balance. Once your account has been opened, you can make a deposit (put money in) or a withdrawal (take money out) any time you wish. Do check with your bank to make sure there are no restrictions on the number of deposits or withdrawals you can make in any one month.



CHECKING ACCOUNT

A savings account is a great way to put some money aside for the future, but what about the rest of our money? First of all, always, always have a little cash on hand. You never know when you're going to need to make a phone call, put gas in the car, buy a bus ticket, get a taxi, or pick up a sandwich because you left your lunch sitting on the counter at home. As a safety precaution, carry an extra \$20.00 with you just in case some unforeseen event occurs.

What about paying our bills? It would not be smart or safe to put cash in an envelope and send it off to pay a bill. It isn't logical to think that we could run around town and hand-deliver our bill payments either. So, how do we handle these situations? -- **You handle them with a checking account!**

When you use checks, you have a record of how you have spent your money. If you pay in cash, you may not realize where your money is going or how much you are actually spending. Writing checks allows you to track where your money is going and, even better, it helps you stick to your budget!

Checking accounts are safe and convenient. In order for a checking account to work to your advantage, you must understand how a checking account works. You must stay on top of entering your deposits and withdrawals, and you must balance your checkbook at least once a month.

What is a checking account? A checking account is like a savings account, but it allows you to withdraw money by way of writing a check.

In order to open a checking account, you must meet with your bank representative to complete the necessary paperwork and deposit money into the account. Again, be sure to ask a lot of questions: Are there any checking account fees? Do you have to maintain a minimum balance in your checking account? What is the cost, if any, to reorder checks when you run out? Once the account is set up, the bank will give you blank checks and a check register that you will use to keep track of the money you deposit and the checks you write.

It is important to know that a check is a legal document, and the check acts like cash. Don't leave your checkbook lying around, tempting someone to use it unlawfully. Checks only work if you have a sufficient amount of money in your account to back up the check. It takes a certain amount of trust by the person who accepts your check. That person trusts you have enough money in your checking account to cover the amount of the check. It is extremely important to avoid writing "bad" checks. A "bad" check is one in which there is not enough money in the account to cover the amount of the check. If you write a "bad" check, people and businesses will no longer trust you, nor will they accept your checks. Writing "bad" checks is extremely damaging to your credit payment history. It is against the law to knowingly write a check that does not have funds to cover it.

Think back to the beginning of our Money Management unit. We learned that in earlier days, people would take their paper receipts to the goldsmith and exchange them for gold. This early process is very similar to how a check works. You write a paper check and the recipient of that check takes it to the bank and exchanges it for cash.

No doubt we have all seen a check. Did you know that there are specific parts of a check? Now let's take a look.

Parts of a Check

Writing a check is easy. Make sure you always use a pen and write neatly. You can print or write in cursive, whichever you prefer. Don't forget the most important rule: **only write checks when you have enough money in your account.** Every time you write a check, you'll fill in six areas:

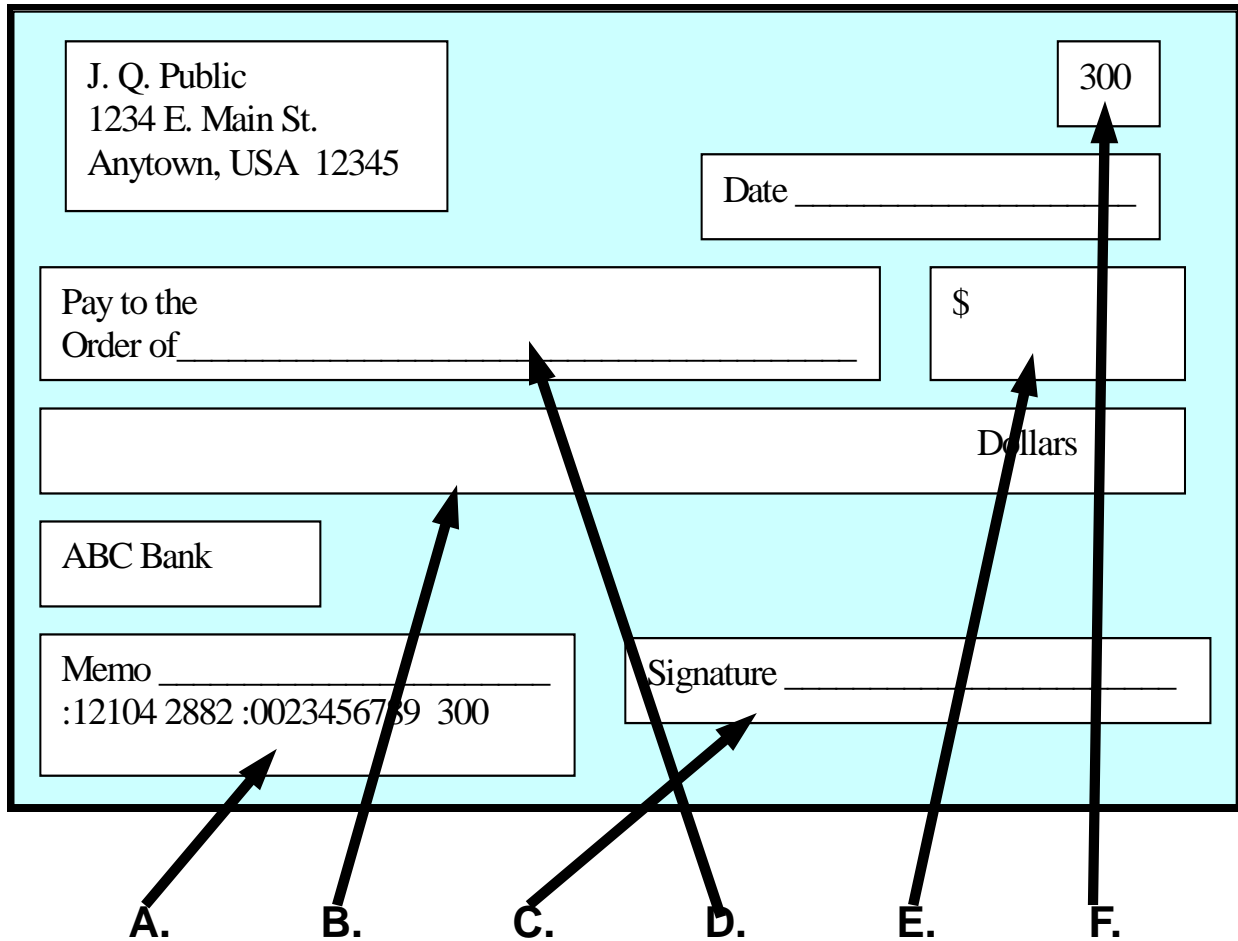
1. **Date:** Write in the day you are filling out the check.
2. **Pay to the Order of:** Write in the name of the person or place to whom you are writing the check.
3. **\$ Amount:** Write the amount the check is for in numbers. When you write the number, start at the left box and don't leave any extra space. Someone could add in more numbers if you don't.
4. **Dollars:** Write, in words, how much the check is for. When you write the words for dollars, start at the left side. Write any cents as a fraction. Draw a line through any extra space.
5. **Signature:** Sign your name here, just like it is written at the top of the check. Don't sign your check until you have filled it out and until you are going to use it.
6. **Memo:** Indicate for what the check is a payment.

After you write your check and before you do anything else; always, always, always enter the check number, amount, and to whom the check is written in your check register. Don't worry; we'll get to the check register.

Okay, let's see how we do at writing a check.



Parts of a Check



- A.** Account number – represents from which checking account the money should be paid.
- B.** Amount – the amount of money to be paid.
- C.** Signature line – lets the bank know the check is authorized by the account owner.
- D.** Payee line – name of the person or company that is to receive the money.
- E.** Numerical amount – to specify the value of the check. The bank will not cash the check if this number does not match with the written amount.
- F.** Check number – tracking number to identify which check was written. This is used for tracking your checks and for balancing your account.

Check Writing Worksheet

Today is Todd's grocery shopping day. Write the check below to Gordon's Groceries, in the amount of \$35.57, using today's date.

J. Q. Public 1234 E. Main St. Anytown, USA 12345	300	Date _____
Pay to the Order of _____	\$ _____	
		Dollars
ABC Bank		
Memo _____ :12104 2882 :0023456789 300	Signature _____	

Angie is going to subscribe to a magazine at a cost of \$20.00 a year. Write a check to Teen Magazine, using today's date.

J. Q. Public 1234 E. Main St. Anytown, USA 12345	300	Date _____
Pay to the Order of _____	\$ _____	
		Dollars
ABC Bank		
Memo _____ :12104 2882 :0023456789 300	Signature _____	



Answer Sheet

Today is Todd's grocery shopping day. Write the check below to Gordon's Groceries, in the amount of \$35.57, using today's date.

J. Q. Public 1234 E. Main St. Anytown, USA 12345	300
Date: <u>November 8, 2003</u>	
Pay to the Order of: <u>Gordon's Groceries</u>	\$ <u>35.57</u>
<u>Thirty Five and 57/100</u> -----Dollars	
ABC Bank	
Memo <u>Groceries</u> :12104 2882 :0023456789 300	Signature <u>XXXXXX</u>

Angie is going to subscribe to a magazine at a cost of \$20.00 a year. Write a check to Teen Magazine, using today's date.

J. Q. Public 1234 E. Main St. Anytown, USA 12345	300
Date: <u>November 8, 2003</u>	
Pay to the Order of: <u>Teen Magazine</u>	\$ <u>20.00</u>
<u>Twenty and 00/100</u> -----Dollars	
ABC Bank	
Memo <u>Magazine Subscription</u> :12104 2882 :0023456789 300	Signature <u>XXXXXX</u>

Deposit or Withdraw Money

What are some of the different ways you can deposit or withdraw money from a checking account? The first way that comes to mind is to go into the bank during business hours. What if you need to make a deposit or withdrawal and the bank is closed? How about using their **Automated Teller Machine**, or ATM, to process your transaction? All banks have an ATM that can assist you with banking transactions 24 hours a day. Most banks do not charge their own customers for using their ATM. Be safe: check with your bank to make sure they do not charge for ATM transactions. Use the ATM at your own back because some ATMs charge your checking account for using their machines. These ATM fees may not seem like much, but they can add up fast and are sure to have a negative effect on your money management plan. In order to use the ATM, the bank will need to issue you an ATM card. When your card is issued, you will receive a **PIN**, a **Personal Identification Number**. This PIN is your ATM password. **DON'T** share it with anyone and **NEVER** write your PIN on the ATM card. If someone gets a hold of your ATM card and PIN, that person can access your account without your knowledge or your permission. The ATM can process a number of different transactions:

- ◆ Deposit money
- ◆ Withdraw money
- ◆ Check your account balance
- ◆ Transfer money between your savings and checking accounts

Many people, who are not ATM users, are reluctant to try an ATM because they are uncertain about how to use them. Bank representatives are more than happy to teach their customers how to use their products. Don't be afraid to ask for help. If you would like a practice run before you go to the bank, try the simulated ATM online in the Savings and Checking unit of the www.bankingonourfuture.org web site. It's pretty cool!



How to Keep Track of your Checking Account

It is extremely important to track the money you have going into and out of your checking account.

Before we go any further, let's stop for a minute and discuss the math part of a checking account. Some people shy away from a checking account because they feel uncertain about math. Don't let the math get in your way of using a great management tool like a checking account. Make it easy on yourself; carry and use a little pocket calculator to do the addition and subtraction. Don't ever hesitate to ask the bank representative for help or training if you need it.

Okay, back to business. You track the money in your checking account by using a check register. Making entries in your check register is easy and will keep you on track. You must immediately write down anything you do with your account: each check you write and each deposit you make. This is called recording a transaction. Why do you think it is important to record your transactions? If you forget to write down a check or ATM withdrawal, your check register will look like you have money in your account that you really do not have. This could result in you writing a "bad" check; one that does not have enough money in the account to cover it. Remember, having checks does not mean that you have money in your account. What if you forget to write in a deposit? You will think you have less money in your account than you really have.

Whenever you write a check, take your register and write in your check number and the date, to whom the check is written, the purpose of the check, and then enter the amount of the check. Next, subtract the check amount from your account balance. If you make a deposit, enter the date and the amount of the deposit; then add this amount to your account balance. Let's take a look at a check register.

Check Register

Number	Date	Description of Transaction	Payment/ Withdrawal (-)		Code	Fee (-)	Deposit/ Interest (+)		Balance	

Number - This is the number of your check. You will find it in the upper right hand corner of each check. Every check has a different number.

Date - This is the day on which you wrote the check.

Description of Transaction - This tells what you did. Did you deposit the money? Did you write a check at the grocery store? Did you use the ATM? If so, did you deposit or withdraw money? Describe your activity here.

Code - This is where you fill in a code for the transactions you make when you are not writing a check. When you get your statement each month, you will place a “✓” through this box if you see the transaction listed on your statement.

D = Deposit

ATM = Automatic Teller Machine

DC = Debit Card

O = Other

Fee - If your bank charges you money to write a check or to withdraw money from the ATM, write that fee in this space.

Deposit/Interest - Did you deposit money into your account? Write that amount here.

Balance - To find out how much money you have, add the deposited money to the amount you had before, or subtract the withdrawal amount from what you had before. This amount of money shown is the balance you have left in your account.



Balancing your Checkbook

If you have a checking account, you must make certain that you “balance” your account on a monthly basis. “Balancing” your account is a way to make sure that your records and calculations agree with the bank’s. If your figures agree with the bank’s, then you know that your account “balances.”

Each month, your bank will send you a monthly itemized statement. A statement is a summary that shows all of the money put in and taken out of the account during the time period shown on the statement.

The following are the steps to balance your checking account against the monthly bank statement:

1. *Compare* each transaction (deposits/withdrawals/checks) listed on your monthly bank statement to each transaction listed on your check register. Place a checkmark (in your check register) in the (✓) column to show that these items have been cashed or have “cleared” the bank.
2. *On the worksheet provided with your monthly statement*, write the statement ending balance where shown.
3. *On the worksheet*, *add up* any deposits that are in your check register but are not on the statement. Do the same for any checks or ATM withdrawals that are in your register but not on your statement.
4. *On the worksheet add* the total deposits to the ending balance on the statement, then subtract the total withdrawals.
5. *Look* at the balance on your bank statement from Step 4 above. This amount should match the amount shown in your check register. If not, you will need to look for the error.

Common Errors

- ◆ Math calculation errors - re-check your math
- ◆ A difference between the amount you wrote a check for and the amount you wrote in the check register
- ◆ An item that you forgot to record in your check register - check, ATM withdrawal, deposit, or fee
- ◆ A number written in reverse order such as \$98 written as \$89
- ◆ An error not corrected from a previous month

Let’s do the Balancing a Checkbook exercise. If your checkbook doesn’t balance the first time around, be patient with yourself, and look over your figures again. Always remember that your bank representative is there to help you if you need assistance.

“Banking on Our Future.” Wells Fargo Banks. 2001

Balancing A Checkbook Worksheet

Every month, the bank send you what's called a "statement," which is a summary of all your deposits and withdrawals for that month. Let's use a statement to balance your practice check register with the monthly bank statement on the next page.

1. What is the balance in your check register after you subtracted the last check?
2. What is the ending balance on your bank statement?

Because a check is missing from the statement, the balance the register shows is less than the balance the bank statement shows. Remember checks do not often clear the bank the same day you write them.

3. Try this. Subtract the amount for check #301 that did not clear from the ending balance the bank statement shows. What is the new balance?
4. Does that new balance match the register balance that you recorded after check #302?

Congratulations! You just balanced your checking account!

Check #	Date	Description	Amount	✓	Balance
					700 00
298	12/3	Rent	300 00		-300 00
					400 00
	12/10	Salary	500 00		+500 00
					900 00
299	12/20	Car Insurance	95 00		-95 00
					805 00
300	12/21	Tip Top Grocery	35 57		-35 57
					769 43
301	12/21	Dry Cleaner	14 72		-14 72
					754 71
ATM	12/24	Cash Withdrawal/Shopping	200 00		-200 00
					554 71
Deposit	12/24	Salary	500 00		+500 00
					1054 71
302	12/31	ABC Bank/Car Payment	357 00		-357 00
					697 71



Bank Statement

ABC BANK

Checking Account

Statement for Account 1234 5678

Your Name

Your Address

Statement date 1/20/03

Beginning Balance	\$700.00
Deposits	1,000.00
Withdrawals	987.57
Ending Balance	\$712.43

DEPOSITS

Amount	Date
\$500.00	12/10
\$500.00	12/24

WITHDRAWALS

Checks cashed

Check Number	Amount	Date
298	\$300.00	12/3
299	\$95.00	12/20
300*	\$35.57	12/20
302	\$357.00	12/31

*indicates missing item

ATM Transactions

ATM Withdrawal	\$200.00	12/24
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CREDIT

What is credit? Credit is a sum of money lent to you by a bank or business for repayment according to a set payment schedule. The bank or business charges you interest, a fee you pay (in addition to the amount of money borrowed) for use of their money.

Credit can be a valuable money management tool **IF** you handle it responsibly. Credit is built over time. The best way to begin establishing credit is to open a savings and checking account and to manage these accounts carefully. You will need a checking account to pay your bills; it is a good way to show that you are financially responsible by not “overdrawing” your account. “Overdrawing” your account means that a check is written for more than the balance you have in your account. This is also known as “bouncing” a check. You can establish credit by taking out a *small* loan. Begin by saving the down payment for the loan. **Before** you take out the loan, be sure you have the income needed to make the monthly payments. Most importantly, repay the loan on time. Good money management is the key to building your credit.

What is a credit card? A credit card is a loan that allows the credit cardholder to make purchases without having cash on hand. Having a credit card means that you are approved to borrow up to a certain amount of money at any time. This is called a credit limit. Each month, you are required to pay at least the minimum amount due on the bill. Interest, the fee you pay to borrow money, is paid only on the amount you borrow. The faster the amount is paid off, the less interest you pay. As the borrowed amount is paid back, the credit again becomes available for you to use. A good rule to follow is to only use a credit card if you have the money to pay the bill in full when it arrives.

Credit card companies offer cards at various “interest” rates. Remember that “interest” is the fee you pay to borrow money. For people who do not have credit or do not have good credit, the interest rate can be extremely high. Always verify the interest rate of any card before you enroll. Be smart and shop around for a credit card that has a low interest rate, does **not** have a variable interest rate (a rate that can change based on economic conditions), and does **not** offer a low interest rate to get you to sign up and then increase the rate once your account has been opened.

Be very careful with credit cards. Many people find that they have overused their cards and cannot make the monthly payments. This can cause serious financial problems that may take years to resolve. There is no reason to have more than one credit card. If you think you need another credit card, that should be the **red** flag you have a credit problem.

You may be asking yourself, “**What is the difference between a loan and a credit card?**” That is a great question! Loans involve a specific amount of money that is lent for large or expensive purchases such as a car or a house. With a credit card, cardholders make purchases of their choice but cannot exceed the credit limit set by



the bank or credit card company. With both credit cards and loans, you pay interest on the money you have not repaid.

Have you heard of a debit card? A debit card is different from a credit card because the amount of the purchase is deducted directly from your checking account. Using a debit card is like writing a check without having to write the check. (You must remember to enter the amount of the debit in your check register.) Be watchful! If your debit card is issued with a MasterCard or Visa logo, you can use the card as either a credit card or a debit card. Be sure to check with your bank to see exactly what type of card you are receiving.

Why is it important to have good credit? Your credit payment history is kept on a file by a consumer reporting agency. It will be reviewed every time you apply for credit, whenever you want to make a major purchase such as a car or a house, when you want to rent an apartment, when you want to turn on water, gas or telephone services, when you apply for insurance, and even when you apply for a job. A poor credit history can cause a business to deny you credit, services, or a job. Your credit record contains information on your history of paying bills, your income level, and the amount of your debts. It will also show if you have ever filed for protection against your debts; this is known as filing for bankruptcy.

Here are a few tips on **how to build and keep good credit.**

- ◆ Always make your payments on time.
- ◆ Never pay less than the minimum payment.
- ◆ Do not have credit cards with large balances or large credit limits – even if you make your payments on time. Having too much outstanding credit will not look good on your credit report.
- ◆ Do not “overdraw” your checking account.
- ◆ Do not exceed your borrowing limit.
- ◆ Repay your credit card balance in full each month.
- ◆ Keep your checks, credit and debit cards and PINs in a safe place. You do not want to risk someone stealing your credit history.

Having and keeping good credit is a very important part of your money management plan.

On-Line Banking

Most banks are now set up to allow you to do **Internet or On-line Banking**. On-line banking is fast, easy (you can do it from the comfort and privacy of your own home), and safe because only you can access your account information using your own password. On-line account access is usually offered as a free service. You can do many of the same transactions on-line as you would usually do at the bank or ATM. You can do the following:

- ◆ Check up-to-date account balances.
- ◆ Check up-to-date account history (withdrawals, deposits, ATM activity, credit card information, etc.).
- ◆ Transfer money between accounts.
- ◆ Reorder checks.
- ◆ Pay bills (Banks typically charge a monthly fee for this service).
- ◆ And much more.

If you would like to check out on-line banking, you can try a quick, introductory overview by visiting www.bankingonourfuture.org.



Money Terms

account - a record of money a person deposits into a bank.

ATM (automated teller machine) - a computer furnished by a bank for its customers. This computer takes the place of a bank teller so that customers may deposit and withdraw money without having to enter the bank. They may also use it when the bank is closed. ATM's are usually found mounted on the wall or in a small building outside the bank.

balance - the exact amount of money in an account.

bartering - to trade without using money.

borrow - to request a loan with the understanding and promise of repaying it.

budget - a plan used to make the most of your money.

checking account - an account on which the depositor may draw checks.

credit - an amount of money lent by a bank or business for repayment.

credit card - a plastic card that can be used to purchase items by borrowing money with a promise to pay it back.

debit card - a plastic card that can be used to purchase items by taking money out of your checking account.

deposit - placing money in a bank or other place for safekeeping.

expense - an item on which you spend money.

income - the amount of money earned at a job or received from social security.

interest - money paid for the use of borrowing money, or money that the bank pays a customer for putting money into their bank.

money - coins and paper currency issued by a government for payment of debts and for purchase of goods and services.

personal identification number (PIN) – a secret combination of numbers that you use to gain access to your account through an automated teller machine (ATM).

savings account - an account at a bank on which interest is usually paid and from which withdrawals can be made.

withdraw - to take out.

Taxing Times

TAXES are another important **MONEY MATTER**. You probably think you have no experience paying taxes, but we all pay taxes almost every time we spend money. Whenever you make a purchase – for a CD, hamburger, toothpaste, you pay **SALES** tax. Another tax is **PROPERTY** tax. This tax is paid on homes, cars, and boats. **What are taxes?**

Taxes are money we pay to the government. The government uses the money to pay for important services, for example, national defense (army, navy,...), roads and highways, police and fire protection, parks, and the justice system. These are services that benefit all citizens. The government also pays for programs and services that benefit only some people. Examples are schools, job training, libraries, social security and scientific research.

***Factoid:** The U.S. Constitution grants the U.S. Government the power to set and collect taxes.

**Suggested Activity

Group discusses their activities of the past 48 hours to identify what was government funded (e.g., school, road, SSI office). Question: Would you prefer to pay for these services with tax dollars or each time you use the service?

PAY DAY!

Getting paid for doing a job is truly great! Most people grumble when they see the difference between their gross pay (how much they earn) and their net pay (how much they actually take home). Why is so much deducted from our paychecks?

Some businesses deduct money to pay for health insurance and/or a savings plan. All employers deduct money to pay your income tax and payroll tax. What is this? How much tax do I have to pay?

Income tax is the tax we pay on our gross salaries, wages, tips, and on any interest earned from our savings accounts. The bottom line – we pay income tax on all earnings. Income tax is paid to state and federal governments.

***Factoid:** An employer is required by federal law to withhold income taxes from employee wages.

The amount of income tax you pay is determined by your filing status. There are five filing statuses:

Single Filing: On the last day of the year, you are unmarried or legally separated and do not qualify for another filing status.

Married Filing Joint: You are married and both you and your spouse agree to file a joint tax return. (On a joint tax return, you report your combined income and deduct your combined allowable expenses.)



Married Filing Separate: You must be married. This filing status may benefit you if you want to be responsible only for your own tax, or if this status results in less tax than a “joint” filing status.

Head of Household: You must meet the following requirements: you are unmarried or considered unmarried on the last day of the year, you paid more than half the cost of keeping up a home for the year, and a qualifying person lived with you in the home for more than half of the year. A qualifying person is a child, foster child, dependent parent or dependent spouse.

Qualifying Widow(er): If your spouse died, and you have not remarried.

Most Fast Track participants are in the “single” filing status. Each filing status has a different tax rate. The highest tax rates apply to those who use the Married Filing Separate status. The lowest tax rates apply to those who use either the Married Filing Joint status or Qualifying Widow(er) with dependent child status. Also, you might be interested to know that both individuals and businesses pay income tax. (Yes, you’re right – the filing statuses for a business are different than those for individuals.)

*Factoid: For year 2000, President George W. Bush and his wife Laura, declared, or reported, a taxable income of \$744,682. Their income tax for 2000 was \$240,342!

Payroll taxes include the Social Security tax and the Medicare tax. Social Security taxes provide income for retired workers and people who are unable to work because of a disability. This tax is also known as the **FICA** tax. FICA stands for **Federal Insurance Contributions Act**. Both employees and employers pay FICA taxes. Your employer sends the FICA tax to the federal government, and this money is applied directly to the Social Security program. The amount of FICA tax you pay is set by the federal government and based on a percentage of your gross pay. The Medicare tax is used to provide medical benefits for U.S. citizens when they reach age 65.

Are you confused? Let’s take a look at Mike Smith’s payroll withholdings. Mike Smith earns \$2,000 a month as a motorcycle mechanic. In addition to payroll taxes and income tax withholding, his employer withholds \$50 a month for his savings plan. Mike’s net, or take home, pay is calculated as follows:

Gross, or earned, pay	\$2,000
Social Security tax (in 2002 this tax was 6.2 percent of the gross pay)	- \$ 124
Medicare tax (in 2002 this tax was 1.45 percent of the gross pay)	- \$ 29
Income tax (per Form W-4)	- \$ 220
Savings plan	- \$ 50
Net pay	\$1,577

Mike earns \$2,000 a month and receives \$1,577 a month. His employer sends \$373 (\$124 + \$29 + 220) to the federal government and \$50 to Mike’s savings plan.

All new employees will complete the required paperwork that gives permission to the employer to make payroll withholdings. The paperwork for the tax portion of your payroll withholding is called Form W-4, the Employee's Withholding Allowance Certificate. The W-4 is an important document that needs to be completed accurately and honestly. The W-4 tells your employer how much income tax to withhold from your paycheck.

Let's Have Some Fun! Take a look at Form W-4.

We can hear what you are thinking, "WOW – this looks complicated!" Don't be fooled. This form is actually very easy to complete, especially for smart people such as yourselves. (We know you're smart because you're in the Fast Track Program!) The top one-third of the page is instructions. The middle one-third is your worksheet, and the lower one-third must be completed and returned to your employer. Let's go through the completion of this form step-by-step.

1. Determine if you are exempt, or free from withholding of federal income tax. An exemption reduces the income amount that is subject to tax. There are two types of exemptions:

- Personal exemptions - for the taxpayer and spouse
- Dependency exemptions – for dependents

You cannot claim an exemption if your income is more than \$800 **or** if another person can claim you as a dependent on their tax return.

Most Fast Track participants will not claim an exemption.

We have determined that you are not exempt, that is free from federal income tax. Now we will complete the Personal Allowances Worksheet in the middle of Form W-4.

2. Personal Allowances Worksheet:

Once again, for **most Fast Track participants, the applicable item is letter B; you are single and have only one job.**

- Enter "1" for line B on the worksheet.
A and C - H apply to single individuals not being claimed as a dependent by another, persons who are married, heads of households, or persons who have dependent children. Please take the time to read through items A and C - H. These other categories may apply to you at some point in the future
- Line H asks you to add lines A through G. Enter "1" for line H on the worksheet.

This "1" means you are entitled to 1 withholding allowance on your federal income tax. Let's see what happens if you are single, earn \$500 a week, and claim zero, one and two withholding allowances.

Withholding allowances	0	1	2
Amount of tax withheld	\$61	\$52	\$44



As the number of allowances goes up, the amount of federal income tax withheld from your paycheck goes down. (Remember that Form W-4 is an important document that must be completed accurately and honestly. It is called *tax evasion* when you fail to pay or deliberately underpay your taxes. Tax evasion is illegal.)

Now you are ready to complete the Employee's Withholding Allowance Certificate, the lower one-third of Form W-4.

3. Employee's Withholding Allowance Certificate:

Lines 1 and 2 are self-explanatory; full name and address.

Line 3 will be "single" for most Fast Track participants.

Line 4 is self-explanatory.

Line 5, take the "1" from line H in the worksheet section.

Line 6, leave this line blank.

Line 7, leave this line blank.

Employee's signature (that's you) and date, are self-explanatory.

Lines 8, 9 and 10 will be completed by your employer.

Important: Make sure you give your correct social security number and use the name that is shown on your social security card, not a nickname. If the name on your social security card is different from your current name, due to marriage, adoption, etc., be sure to contact the Social Security office at 1-800-772-1213 for instructions on how to get a new card. Incorrect information on Form W-4 might delay or prevent a tax refund, or you may not receive proper credit for the Social Security taxes you have paid.

CONGRATUALIONS! You have now completed Form W-4.

Record Keeping

Now that you have entered the "working world," it is wise and important to set up a simple system for keeping your financial records. Keeping good financial records becomes extremely valuable as you get older. You are no longer declared a dependent on your parent's tax return, and you become responsible for your own income and expenses.

Your financial records should include any paperwork that has to do with your income:

- Form W-4
- Paycheck stubs
- Bank statements of interest earned on your saving account(s)
- Records of any bonuses, commissions, or tips
- Records of large monetary gifts
- Records of student loans

Spending records should include:

- Cancelled checks

- Monthly checking account statements
- Checking account registers
- Credit card statements
- Rent receipts
- Cash register receipts for purchase of drug prescriptions
- Receipts for contact lens including cleaning supplies and/or glasses
- Receipts for all doctor appointment co-payments
- Receipts for medical supplies and equipment
- Records of premium payment for medical insurance
- Receipts for educational expenses
- Receipts for donations to charities
- Records of loans; personal, automobile, etc.

We recommend that you speak with a tax preparation professional, as this individual will be able to give you a specific listing of items that can be reported as deductions on your tax return. This list is subject to change from year to year because the tax laws change each year. We will discuss tax returns in the next section.

As you start out and your income is small, you can set up an envelope system. Store your records in envelopes that are labeled by months or item, such as paycheck stubs, savings account statements, rent receipts, etc. Shoeboxes work well also. As your financial records grow, you will probably need to move your system to a filing drawer or cabinet. There are a number of computer programs available, such as *Quicken*, which can help you with your budget and personal finances. The advantages of computer record keeping include quick, easy access and updating, and an all-in-one file for income (earnings) and spending (expenses). Advantages of paper record keeping include its affordability, ease, and convenience. Accurate and thorough record keeping throughout the year will make preparing your tax return easier and will assure that you have the proper documentation to back-up, or support, all of the items on your income tax return forms.

Income Tax Return

Every year, on April 15th, we are required to send in our federal and state income tax return forms. It is through this process that we look at the amount of tax we paid during the previous year, subtract any additional deductions from our annual income for this period, and then calculate the tax we owe. Tax preparation software, such as *TurboTax*, is available. There are tax preparation professionals who will calculate your taxes for a fee. **Most Fast Track participants can file form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents.** A copy of this form has been included here.

When a person pays more taxes throughout the year than he/she owes, he/she will receive a tax refund from the government. If a taxpayer did not pay his/her share of taxes throughout the year, he/she will owe the government an additional tax payment.



This additional tax payment, in the form of a check or money order, must accompany your tax return form. Once completed, your tax return can be mailed to the Internal Revenue Service (IRS) or telefiled by using the keypad of a touch-tone telephone. You will need to ask the IRS if you are eligible for telefiling. If you are, they will send you a special tax package. You also can file your tax return electronically over the Internet. Most people have mixed emotions about the subject of taxes. Historically, taxes have been met with rebellion, and even war.

***Factoid:** In 1789, French tax collectors were very unpopular. They were sent to the guillotine!

Yet, the benefits of taxation are positive. Just think what it would be like without our national defense system or, closer to home, clean drinking water or sewer systems - paid for by our tax dollars! As Oliver Wendell Holmes, Jr., Harvard Law Professor and United States Supreme Court Justice, so nicely stated, "Taxes are what we pay for civilized society."

Resources

www.irs.gov/app/understandingTaxes/jsp/s_student_home.jsp
www.quicken.com
www.turbotax.com

TAX TERMS

A

- ◆ Allowable Expenses: Expenses the government permits you to deduct from your income for the purpose of calculating your annual taxes. Examples include: medical expenses, educational expenses, interest paid on your mortgage, etc.
- ◆ Annual: Once a year.

B

- ◆ Bonus: Compensation received by an employee for services performed. A bonus is given in addition to an employee's usual compensation.

C

- ◆ Commission: Compensation received by an employee for services performed. Commissions are paid based on a percentage of sales made or a fixed amount per sale.

D

- ◆ Deduction: Something that may be subtracted from your gross income.
- ◆ Dependency Exemption: Amount that taxpayers can claim for their eligible dependents. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.
- ◆ Dependent: A person, other than the taxpayer or spouse, who entitles the taxpayer to claim a dependency exemption.

E

- ◆ Earned Income / Earnings: Any income including wages, salaries, tips, interest income, bonus, commission, unemployment compensation and certain scholarships.
- ◆ Exempt (from withholding): Free from withholding of federal income tax. A person must meet certain guidelines. This does not exempt a person from other kinds of tax withholding, such as Social Security tax.
- ◆ Exemption: Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions – personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

F

- ◆ Federal Income Tax: This is the tax the federal government puts on our personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement, and to pay the interest on the national debt.
- ◆ FICA Tax (Federal Insurance Contributions Act): Provides income for retired workers and for people who are unable to work due to a disability. This is also known as the Social Security tax.
- ◆ Filing Status: Determines the rate at which income is taxed. The five filing statuses are: single, married filing a joint return, married filing a separate return, head of household, and qualifying widow(er) with dependent child.



- ◆ Financial Records: Spending and income records and items to keep for tax purposes, including such things as paycheck stubs, statements of interest earned, and records of gifts, tips, and bonuses. Spending records include cancelled checks, cash register receipts, credit card statements, checking account registers, and rent receipts.
- ◆ Form W-4: This is the *Employee's Withholding Allowance Certificate*. This form is completed by the employee and is used by the employer to determine the amount of income tax to withhold.

G

- ◆ Gross Income: The total amount of money earned, before any deductions are withdrawn.
- ◆ Gross Pay: This is your total pay, for a pay period, before any deductions are withdrawn.

I

- ◆ Income Tax: The tax we pay on our salaries, wages, and tips as well as the tax we pay on the interest earned from our savings accounts.
- ◆ Interest: Money the bank pays a customer for putting money into their bank, or money a customer pays for the use of borrowing money.
- ◆ IRS (Internal Revenue Service): The government agency that collects income taxes in the United States.

J

- ◆ Joint Tax Return: A tax return that provides the combined annual income and expense information for a married couple, husband and wife.

M

- ◆ Medicare Tax: Used to provide medical benefits for certain individuals when they reach age 65.

N

- ◆ Net Income: An individual's total earnings minus his/her payroll deductions.
- ◆ Net Pay: This is your total pay, for a pay period, minus any payroll deductions.

P

- ◆ Pay Period: This is how often you are paid. It could be: weekly (52 paychecks per year), bi-weekly or every other week (26 paychecks per year), bi-monthly or twice a month (24 paychecks per year), or monthly (12 paychecks per year).
- ◆ Payroll Deductions: Money that employers take out of an employee's paycheck. Employers withhold money for federal income taxes, Social Security taxes, state and local taxes, health insurance, saving plans, etc. The employer will send any money taken out for taxes directly to the government.
- ◆ Payroll Taxes: Includes Social Security and Medicare taxes.
- ◆ Personal Exemption: Can be claimed for the taxpayer and spouse. Each personal exemption reduces the income subject to tax.

R

- ◆ Refund: Money owed to taxpayers when their total tax payments are greater than the tax amount they owe. Refunds are received from the government.
- ◆ Revenue: The income the nation collects from taxes.

S

- ◆ Social Security Tax: Provides income for retired workers and for people who are unable to work due to a disability. This is also known as the “Federal Insurance Contribution Act” (FICA) tax.

T

- ◆ Tax Evasion: A failure to pay or a deliberate underpayment of taxes.
- ◆ Tax Return: A form on which you give details of your income and expenses for purpose of determining the actual amount of tax you owe for any given year. This form must be filed with the state and federal government by April 15th of each year.
- ◆ Taxes: Required payment of money made to the government so the government can provide public goods and services that benefit us all.
- ◆ Tips: Money and goods received for services performed by food servers, baggage handlers, hairdressers, and others. Tips go beyond the stated amount of the bill and are given voluntarily.

W

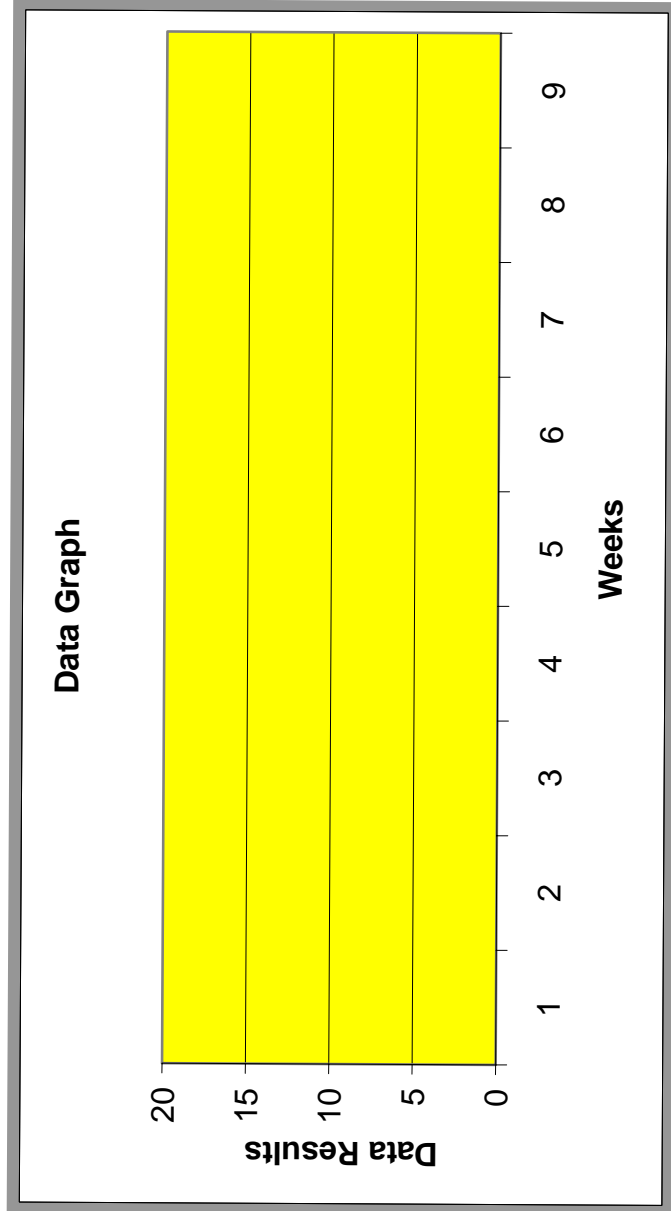
- ◆ Withhold / Withholdings: Money that employers take out of an employee’s paycheck. Employers withhold money for federal income taxes, Social Security taxes, state and local taxes, health insurance, saving plans, etc. The employer will send any money taken out for taxes directly to the government.



Choosing Your PAR Goal

Select one or two Money Management Goals and use PAR to monitor your progress.

PROBLEM/GOAL/HYPOTHESIS	RESOURCES	STRATEGY/DATA
Problem: Goal: Hypothesis:		Strategy: Data:
Problem: Goal: Hypothesis:		Strategy: Data:



My Personal Budget

Name: _____

Description	Expense	Income	Money Available