

Before You Begin



Learning Outcomes

Once you've completed this chapter's videos, you will be asked to return to this list of learning outcomes and place a checkmark next to the items you've mastered.

Section 1: Self-Assessment

- Identify your personal strengths and weaknesses.

Section 2: Goal Setting

- Clarify your educational and career goals.
- Understand the components of goal setting.

Section 3: You Won't Love the Entry Level

- Understand the value of entry-level jobs.
- Identify valuable work attributes outside of your general skill set.

Section 4: Best Practices of Successful People

- Identify the best practices of successful people.
- Develop a résumé.
- Analyze the interview process and develop personal interview skills.

Section 5: Income and Taxes

- Describe factors affecting take-home pay.
- Identify sources of personal income.
- Identify different types of taxes.
- Be familiar with various documents for reporting taxes.
- Analyze the costs and benefits of paying taxes and the cost of government services.



Key Terms

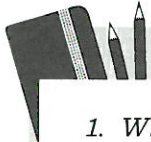
Get to know the language of money.

- » **Earned income:** Any income (wages/salary) that is generated by working
- » **Income tax:** Tax paid out by anyone who earns an income
- » **Passive income:** Money earned on a regular basis with little or no effort required to maintain it. Some things that produce passive income are real estate, intellectual property like books or internet content, or a business in which the owner is not actively involved.
- » **Personal branding:** The process by which we "market" ourselves to others; involves highlighting personal strengths, interests and unique qualities and identifying goals
- » **Portfolio income:** Income generated by selling an investment at a higher price than you paid for it
- » **Property taxes:** Taxes paid by anyone who owns property such as land, a home or commercial real estate
- » **Résumé:** A brief account of one's professional or work experience and qualifications, often submitted with an employment application
- » **Sales tax:** Tax on goods and services that goes to your state or local government
- » **Social Security:** A federal insurance program funded by taxpayer dollars that provides benefits to people who are retired, unemployed or disabled



Measure Your Progress

The majority of this chapter is about choosing a career that blends your strengths, interests, abilities and personality traits. Whether you are going to college or straight into the workforce, you will need to be able to answer some basic questions about yourself. The answers to these questions will not only help guide you in your career path, but they will prepare you for interviews as well. Take some time to answer these questions:



JOURNAL QUESTION: INTRODUCTION

1. *What are your interests?*

2. *What are your career goals?*

3. *How would you describe yourself?*

4. *Describe your ability to work as part of a team.*

“The mindset today is you have to know who you are and how you function in the market. That’s the only security you have.”

DAVE RAMSEY



Section 1: Self-Assessment

VIDEO 1.1

A Message From Dave



THE JOB MARKET is changing, so you must be prepared to change with it. My grandfather was an incredible man. He was one of my heroes, actually. He entered the workforce during one of the most difficult periods in American history, the Great Depression. Life wasn’t easy back then, but he enjoyed his work, loved his family, and poured himself into both. He started in the accounting department at Alcoa, an aluminum company, as a very young man, and over time he grew into one of their head cost accountants. Grandpa stayed with Alcoa for 38 years, until the day he retired from the workforce. He left with a gold

watch and a pension, as well as the satisfaction of knowing he’d devoted his entire working life to a single company. Those days are gone in America. Companies, products, services, startups and shutdowns are moving faster today than ever before. The rate of change going on in the workplace is mind-blowing! My grandfather, God love him, would be completely out of place in today’s market. Throughout this course, we focus almost entirely on the “outgo.” That is, we budget and plan how to spend and save our money. That’s what the Five Foundations are all about, right? It’s how we tell our money what to do once it leaves our hands. In this chapter we switch gears and examine your income.

- 43% of teens are “very confident” they will someday have their dream job.
- 71% of teens would consider giving up their dream job for one that paid a higher salary.

Junior Achievement Teens and Careers Survey 2012

Consider This When Choosing a Career Path

- » Deciding on a career is not as hard as you think.
Ask yourself: What do you love to do? What are you _____ good at? What hobbies and interests do you already have that you could turn into a career?
- » You can experiment by getting a part-time job, volunteering, or just _____ someone on a job you are interested in. While you are there, ask questions!
- » Invest time in _____ your decision rather than spending time _____ it later.
- » Remember, just because a particular job pays well doesn't mean it will be something you _____.
- » Don't get money and happiness _____!
- » The job market constantly changes—and so do _____.
Even if you decide the career you chose doesn't fit you 10 years from now, it's not the end of the world. It's actually _____.
- » What's most important is that you do what you love; do what you're naturally good at. If you do that with _____, you won't have to worry about money.

"Winning isn't everything, but wanting to win is."

VINCE LOMBARDI
Former NFL coach

"Just because you're good at something doesn't make it a strength. You also must have a passion for what you're doing—that's what qualifies it as a strength."

MARCUS BUCKINGHAM
Author

Identify Your Personal Strengths and Weaknesses

“It’s not how much money we make that ultimately makes us happy between nine and five. It’s whether our work fulfills us.”

Outliers: The Story of Success

The average worker today will have 10 different jobs by age 40 and could have as many as 20 different jobs during his or her working lifetime. Unlike past generations of Americans, the modern workforce finds security not in the longevity of their employment with a

single, stable company, but rather in understanding who they are and what they want to be doing. The focus has shifted away from the big corporations and toward the individual’s strengths and passions.

JOURNAL QUESTION: VIDEO 1.1

What are some of your personal strengths and weaknesses?

Young adults go through an average of seven jobs during their 20s.

Society for the Study of Emerging Adulthood

VIDEO 1.2

A Message From Jon *How to Stay Positive*

“It took me a long time to learn that dreamers are a dime a dozen. The world is lousy with dreamers. Doers? They’re rare. They’re the ones who actually change the world.”

JON ACUFF



Everyone has them: those nagging voices of fear and doubt. They only get loud when you do things that matter.

And since you’re going to do a lot of things that matter, you can expect some voices headed your way. So what can you do? You’re going to beat your voices by doing three things:

1. _____ **them down.** Voices are invisible bullies, and they hate when you make them visible. The best way to do that is to write them down in a simple notebook. They can’t stand to be documented, because the minute they are, you can see how stupid they are. Lies hate the light of day.

2. _____ **them with truth.** Never argue with a voice. That’s a never-ending tangled discussion you won’t escape from any time soon.

3. _____ **your voices.** Do you know what fear and doubt fear? Community. One of fear and doubt’s chief aims is to make you feel alone—like you’re the only one who feels a certain way. Fear wants to isolate you. As long as you keep your fear to yourself, no one can tell you the truth about it.

Build Your Brand

Most people know what a brand is. Who makes your favorite shoes or soft drink? But do you know why branding is important when selling a product? Companies spend a lot of money on developing their specific brand message. A brand is meant to tell the “story” of a product through creative packaging and advertising in order to distinguish it from the competition.

Personal branding has the same purpose. It’s simply a process of identifying your skills, experiences

and strengths and marketing those in the most effective way. You want to leverage your education and personal attributes for success. For example, say you spend a semester of college studying Spanish in a third-world country. You would want to be intentional about how you market that unique experience on your résumé. What you learned and how you grew as an individual were just as important as the skill of speaking a foreign language.

“Hard work is a prison cell only if the work has no meaning.”

MALCOLM GLADWELL
Best-selling author and speaker

“The future belongs to those who believe in the beauty of their dreams.”

ELEANOR ROOSEVELT
Former First Lady of the United States

JOURNAL QUESTION: VIDEO 1

Write down what your negative voice says about you. Refute that voice with the truth and share it with others.

VIDEO 1.3: THERE ARE NO FILL-INS FOR THIS SECTION

The DISC is a popular system originally based on the work of an American psychologist named William Moulton Marston in the 1920s.

TEST YOURSELF

Go to foundationsU.com and take the DISC Personality Profile.

“The way to succeed is to identify your strengths and weaknesses, then seek goals that fit those strengths and weaknesses using tactics and strategies that take advantage of your strengths and sidestep your weaknesses.”

JOHN T. REED
American businessman,
author and investor

Just Because You’re Good at Something Doesn’t Make It a Strength

According to Marcus Buckingham, author of *Go Put Your Strengths To Work*, “most people think your strengths are what you’re good at, and your weaknesses are what you’re bad at.” He explains that this isn’t a good way to measure your strengths and weaknesses. There may be a lot of things that you’re good at but hate doing. Just because you’re good at

something doesn’t make it a strength. You also must have a passion for what you’re doing—that’s what qualifies it as a strength. “A better definition of a strength,” says Buckingham, “is an activity that makes you feel strong. And a weakness is an activity that makes you feel weak. Even if you’re good at it, if it drains you, that’s a weakness.”

You Never Outgrow Who You Are

Even though your knowledge and work experience will change throughout your life, you’ll never outgrow who you are. Everyone has natural tendencies, strengths and weaknesses that are intertwined with who they are as people. You cannot leave it up to someone else to tell you what you should do with your life—not

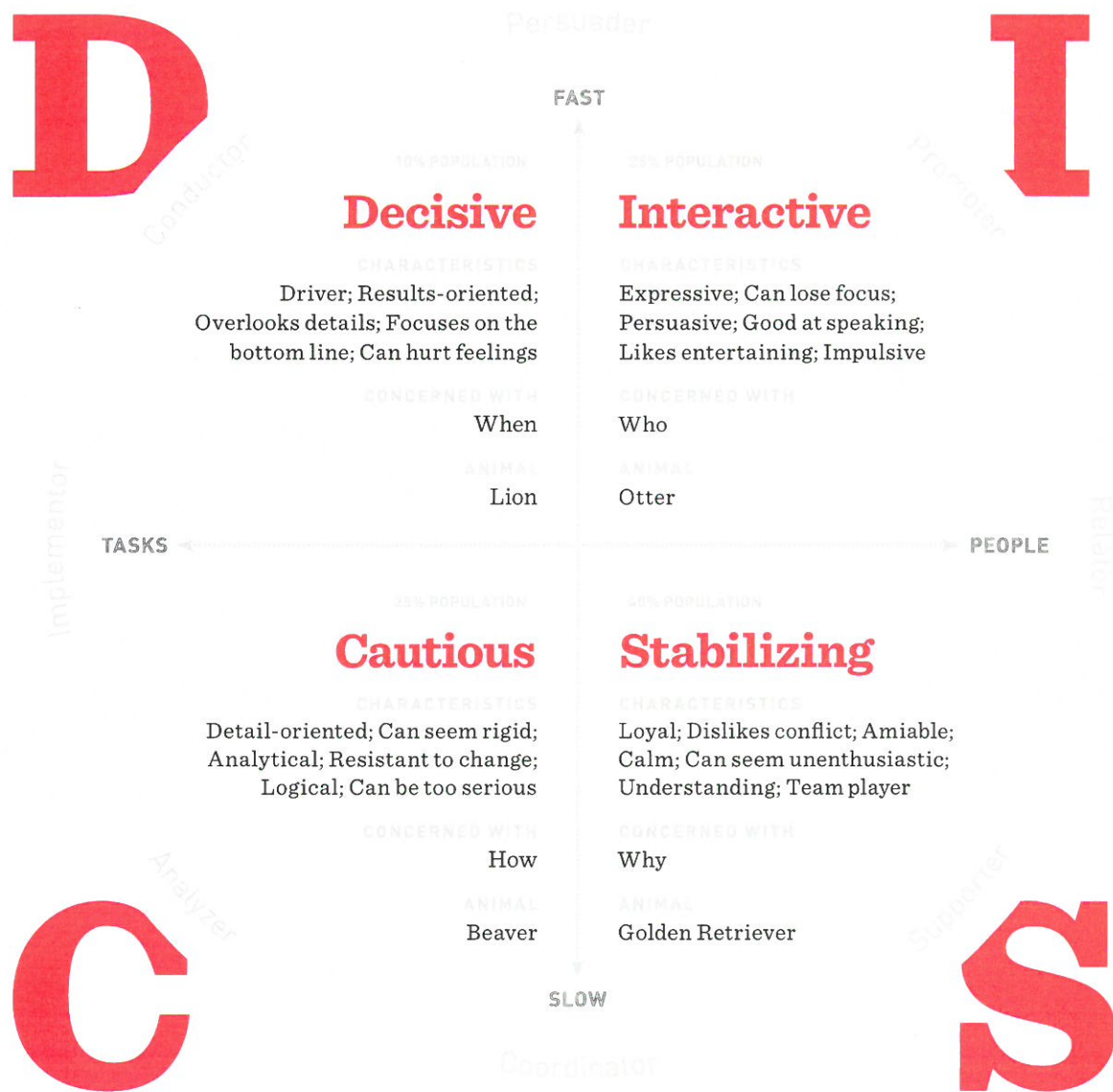
your parents, your friends or your teachers. Your career must engage your strengths, not silence them. For example, if you have high energy and love interacting with others, then a job that requires you to sit at a desk all day where you are isolated from others probably would not be a good fit for you.

JOURNAL QUESTION: VIDEO 1.3

Which careers compliment your passions and strengths?

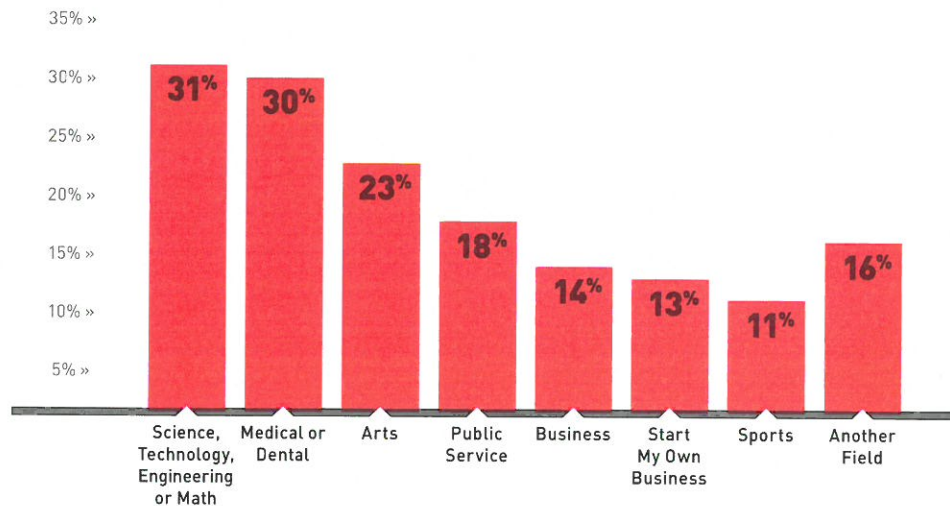
DISC Personality Profile

Understanding your own strengths and weaknesses should be a top priority. Remember, people who only work for money are miserable because there is no fulfillment or meaning in their careers. You must find something that blends your skills, abilities, personality traits, values, dreams and passions.



What Kind of Job Do You Want After Graduation?

Take a look at the graph below to see what fields of employment teens are most interested in.



Section 2: Goal Setting

VIDEO 2.1

Goal-Setting Categories

It is important to have a goal for each area of your life.

- » Career
- » Education
- » Financial
- » Family
- » Spiritual
- » Social
- » Physical

SET YOUR GOALS!

In which areas of life do you most need to set goals? Go to foundationsU.com/wheel to take Zig Ziglar's Wheel of Life Quiz.


"What causes you to hit goals is not the things you're willing to do to accomplish them. It's the things you're willing to sacrifice."

DAVE RAMSEY

Goal Guidelines

How do you take a goal from fuzzy and undefined to crystal clear and actionable? Your goals must:

- » **Be** _____. How will you know you've achieved your goal? Give yourself a time limit and some other measure of achievement.
- » **Be** _____. Don't just say, "I am going to save for a car." Have a specific car and a specific price in mind.
- » **Have** ______. If your goal has no end in sight, you'll get discouraged. Plan to accomplish your goals by a specific date.
- » **Be** _____ **goals**. Example: If you want to be a doctor and, therefore, you go to medical school, great! If your parents want you to be a doctor and, therefore, you go to medical school, I don't want to be your patient! You may accomplish a goal that someone else has set for you, but you won't be passionate about it.
- » **Be** _____ **down**. Writing your goals down gives you clarity and focus. A written goal is also a powerful reminder that you can use to keep you on track.



JOURNAL QUESTION: VIDEO 2.1

Describe a recent goal you set for yourself. What did you do to make reaching that goal a success?

OTHER IMPORTANT ELEMENTS OF GOAL SETTING

- **Make sure you have some accountability.** Share your goals with the people closest to you. Give them an opportunity to encourage you along the way.
- **Eliminate distractions.** It's important not to let yourself get sidetracked.
- **Write goals in the positive, not the negative.** Focus on what you're going to achieve, not what you're going to give up.
- **Read your goals on a regular basis.** Post them where you can see them.
- **Make your goals challenging, but attainable.** For long-term goals, try breaking them into smaller steps.

Is walking from fuzzy goal to real action easy to do? Not always. But the clearer your goals are, the more likely you are to actually reach them.

Ready to be an effective goal setter? Go to foundationsU.com/goals to use our Goal Tracker tool.

Section 3:

You Won't Love the Entry Level

VIDEO 3.1

What Will Life Be Like When You Move Out?

Maybe you're assuming that when you're on your own, you'll have as big of a house and as nice of a car and take the same kind of vacations as your parents. And you aren't alone; 59% of your peers believe they will do even BETTER financially than their parents. But here's the deal: Your

parents didn't have those things when they were starting out. Just ask them what life was like when they were starting out. Listen to the story of their humble beginnings—their first apartment or car or where they went out to eat for dinner.

The truth is—having the same lifestyle as your parents won't be automatic or immediate.

- » Average rent on a one-bedroom apartment in most cities is about \$_____ a month! Water and electricity—which are kind of important—we're talking \$200 a month. Food will cost you about \$250 a month—and yes, that's for just one person. That's \$1,200 a month already!
- » College graduates who actually get a job in their field out of college might start out with \$35,000 to \$45,000 a year. But if you factor in the graduates who are unemployed or underemployed because they can't find work in their career field, the average salary drops to around \$_____.
- » Don't expect to see all of that \$27,000 come home with you. That's because _____ will eat up 20 to 25% of your paycheck.

MORE THAN JUST A SUMMER JOB

In recent years fewer and fewer teenagers have been working during the summer months. With youth employment declining, young people are losing the opportunity to develop important life skills that will help them climb the corporate ladder in later years. It's these "first jobs" that help young people develop the perseverance, humility, flexibility, hard work, respect, teamwork and commitment that make one successful in an adult career. Something to consider!

- » That only leaves you about \$600 a month for things like transportation, clothes, cable and a cell phone—not to mention saving, _____ and having fun with your friends.
- » You might think having a full-time job means you'll be able to go out and buy whatever you want. But that's just not real life. That's why it's crucial to know how to _____ now!

Someday you'll think back to your first car with one working window or your thrift-store coffee table and you'll laugh—because they were pieces of junk, sure, but also because those little sacrifices paved the way for a great future.

It takes time and being smart with your money to build wealth. So get an education, budget your income, save for big items, and invest early for your future. As you move up in your career, your income will grow—and if you do what we teach, you will win with money.

Overtime and Extra Jobs

Many people work extra jobs or overtime in order to pay off debt. If you have debt, attack it now by picking up extra work opportunities. Once you

are out of debt, or if you are wise and avoid debt altogether, these jobs will be a thing of the past.

“Choose a job you love, and you will never have to work a day in your life.”

CONFUCIUS
Chinese teacher, politician and philosopher

“In order to succeed, your desire for success should be greater than your fear of failure.”

BILL COSBY
American comedian, actor and author

JOURNAL QUESTION: VIDEO 31

Describe a work experience that has helped you develop valuable career attributes such as a strong work ethic, respect, commitment, etc.

Section 4:

Best Practices of Successful People

VIDEO 4.1: THERE ARE NO FILL-INS FOR THIS SECTION

Take notes in the spaces provided.

Five Things Successful People Always Do

1. They start. _____
2. They fight fear. _____
3. They ignore haters. _____
4. They stay humble and hungry. _____
5. They give to others. _____

A Message From Dave on Contentment



Over the years, I've been able to talk to a lot of men and women at all different income levels and at all different levels of wealth. I've met people making \$150,000 who are flat broke and up to their eyeballs in debt, and I've met people making \$50,000

who are debt-free, building wealth, and winning with money. How's that possible? How can someone be winning at \$50,000 while someone else is losing—big time—at \$150,000? The answer may surprise you. I think this one thing is so fundamental that it's impossible to be successful without it. I'm talking about contentment.

Five Lands on the Road to Awesome

1. Learning _____
2. Editing _____
3. Mastering _____
4. Harvesting _____
5. Guiding _____

"What I know is that if you do work that you love and work that fulfills you, the rest will come. I truly believe that the reason I've been able to be so financially successful is because my focus has never, ever for one minute been money."

OPRAH WINFREY
American television host,
actress and philanthropist

13% of teens want to start their own business someday.

Junior Achievement Teens and Careers Survey 2012

"Money won't make you happy... but everybody wants to find out for themselves."

ZIG ZIGLAR
American author and motivational speaker



JOURNAL QUESTION: VIDEO 4.1

Look back at Jon's list of "Five Things Successful People Always Do." Which of these comes naturally to you? Which of these do you struggle with?

VIDEO 4.2: THERE ARE NO FILL-INS FOR THIS SECTION

A Story About Mentorship

“ I was lucky to have the right heroes. Tell me who your heroes are and I'll tell you how you'll turn out to be. The qualities of the one you admire are the traits that you, with a little practice, can make your own, and that, if practiced, will become habit forming.”


WARREN BUFFETT, Legendary investor

Warren Buffett, billionaire and chairman of Berkshire Hathaway, knows the value of a mentor. Buffett's father, a stockbroker, was his first mentor. He guided young Warren as he spread his business and investing wings at an early age.

Buffett's next mentor was Ben Graham, author of *The Intelligent Investor*, and Buffett's professor at Columbia

University. Following in the footsteps of these "heroes," Buffett became one of the wealthiest men in the world, eventually mentoring another one of the wealthiest men in the world, Bill Gates.

Whatever your goals in life, if you desire success, find a person who has achieved success and follow in their footsteps.



JOURNAL QUESTION: VIDEO 4.2

Describe someone you consider to be a success. What qualities make this person seem successful?

KEYS TO MAKING MENTORSHIP A REAL BENEFIT

- **Choose wisely.** The goal of this relationship is to improve your habits and values as you work toward your goals. Often, your mentor will be older than you and in the next stage of life, so you can gain from their experiences.
- **Take action.** If all you do is meet with your mentor, you're not going to get much from the relationship. Even the best mentoring relationship is a failure if you don't follow through and act on what you've learned.
- **Change it up.** You may find that you need different mentors as you progress through different stages of life.

One last thought:

Mentoring is a cycle. Keep it going and return the favor of all the wisdom you received from your mentor by being willing to become a mentor yourself someday.

“As iron sharpens iron, so one person sharpens another.”

Proverbs 27:17

VIDEO 4.3

Job Search and Résumé Basics

TO FIND A JOB, EXPAND THREE CIRCLES

- 1. Geography:** Be willing to work a greater distance from home or move to another city if necessary.
- 2. Industry:** Don't get caught up looking for a specific job title. Be willing to look at related career fields.
- 3. Permanence:** If a full-time position is not available, be willing to work part time or as a temporary employee.

Small circles will limit you, e.g., "I only want to work in advertising in a full-time position in Nashville."

Expand the circles, e.g., "I will work anywhere in the Southeast, in advertising, marketing or corporate communications and will take part-time contract work."

Your résumé should include a *Results* paragraph at the top. This is just one or two lines that highlight something important you've accomplished. In high school, your key results may be limited to community service or extracurricular activities. That's okay! Employers just want to see that you've actually done something.

Job Hunting

- » Companies do not start out looking for _____. They have a specific _____, and they need someone to meet it.
- » Develop a strategy: Identify your _____ job/employer and _____ everything you can about them.

Applying for a Job

When it is time to contact the company, think of it like starting a new relationship with a person. After you target the companies where you would most like to work, you are going to contact them at least three times.

- 1. Introduction _____:** The primary purpose of an introduction letter is to introduce yourself to a company. This is usually your first point of contact with a business.
- 2. Cover letter and résumé:** Your cover letter should be specific to the position you are applying for, relating your experience, skills and experience to the position for which you are applying. Your résumé should present your background and skills to an employer.
- 3. Phone follow-up:** Make sure your initial introduction letter and résumé are followed with more personal contact with the employer.

Interviews and jobs come from persistent follow-up and _____.

Sample Résumé

Building a solid résumé is a key step toward landing a job. Take a look at the sample below. What do you see that you might want to add to your résumé?

JOHN Q. PUBLIC

402111 Little Drive | Lamponia, TN 13579
johnp@email.com | 555.123.4567

RESULTS

Named "Employee of the Month" three times in the past year at Jeffrey's Grille. Youngest coaching assistant for Lamponia Middle School wrestling team. Saved a life through CPR. More to come.

EDUCATION

Washington High School
Projected graduation date: May 20XX | GPA: 3.4

WORK EXPERIENCE

YMCA, Lamponia (20XX–present)

- Ensured safety of all patrons at the swimming pool
- Coordinated swimming instructions for 50 students each summer

Jeffrey's Grille, Lamponia (20XX–present)

- Managed prepping station for salads and fries
- Provided a clean dining environment by wiping off tables and cleaning dishes

VOLUNTEER POSITIONS

Coaching Assistant, Lamponia Middle School | Wrestling Program (20XX–20XX)

- Exercised quick decision-making skills to coach wrestlers during matches
- Planned and instructed practices, including skills training for 32 wrestlers
- Prepared facilities for tournaments including coordinating concessions, referees and scorekeepers

EXTRACURRICULAR ACTIVITIES

Junior Varsity Wrestling Team, Lamponia High School (20XX–present)

Iron Man Award

Wrestling Clubs

Thompson County Wrestling Club, Hopeville Jr. Wrestling Club, Lamponia Wrestling Club

10 CAREER FIELDS LIKELY TO FLOURISH IN 2020

1. Data crunching
2. Counseling and therapy
3. Scientific research
4. Computer engineering
5. Veterinarians
6. Environmental and conservation science
7. Some healthcare fields
8. Management
9. Finance
10. Entrepreneurship

usnews.com



JOURNAL QUESTION: VIDEO 4.3

What do you think is the most important thing to remember when looking for a job?

VIDEO 4.4

Interviews: Dave's Advice

- » Present yourself well. You are the _____, so make it the best one available. Be on _____, address everyone by _____, offer a firm, confident _____, and maintain _____ contact at all times.
- » Designate a time to _____ after the interview —and DO IT!



How Can I Land a Job Without Any Experience?

“What kind of things can you put on a part-time job application that will make you stand out from everyone else?”

DAVE'S ANSWER: Experience is a great thing to have when you're looking for a job. Every employer wants to know that a potential employee can do the job.

But even if it's your first “real” job, you probably have experience you didn't think about. Babysitting is great experience. It's even better if the parents will give you a good recommendation. If

parents feel comfortable with you caring for their child, surely a fast-food manager can trust you to flip a few burgers.

If you're in band, hold a seat on the student council, or even play sports, these things can catch a manager's eye. They all show that you're willing to work, commit to something, and take on responsibility.

Interview Basics

Before an Interview

- » Research the company. You will need to be prepared to answer questions such as, “What do you know about our company?” and “Why do you want to work here?”
- » Practice with a friend and prepare to answer commonly asked interview questions (you can research these online).

During the Interview

- » Dress professionally and be well-groomed.
- » Do not slouch or chew gum.
- » Arrive 10 to 15 minutes early.
- » Be personable. Connect with the interviewer.
- » Be yourself. You will be perceived as authentic and trustworthy.
- » Be organized. Bring extra copies of your résumé and a notepad to jot things down.
- » Keep it positive. Never say anything negative about past employers or work experiences.
- » Show interest and be enthusiastic. Ask questions that build on your interview discussion.

“Think beyond your lifetime if you want to accomplish something truly worthwhile.”

WALT DISNEY
American animator, film producer, entrepreneur and philanthropist

In American culture, too many people spend a lifetime chasing wealth in a career that they hate. Or they work an excessive number of hours every week. “Do not wear yourself out to get rich; have the wisdom to show restraint” (Proverbs 23:4). Do something you love and that is fun for you! If you make a lot of money, great! But if you don't, at least you will have spent a lifetime doing something that was rewarding. Money should never become your primary motivation.

Interview Basics *(Continued)*

- » Do not bring up the issue of salary during your first interview. Find out all you can about the general salary levels of the company beforehand. If the employer asks you about salary expectations, try to give a general answer.
- » Ask your interviewer when you can expect to hear from them.

After the Interview

- » Take time to write down some notes about anything that might influence your decision of whether or not to accept the position.
- » Write a thank-you note to the employer within 48 hours of the interview, even if you are not interested in the job.

“All misfortune is but a stepping stone to fortune.”

HENRY DAVID THOREAU
American author, poet
and abolitionist

TAXPAYER OBLIGATIONS, INTEREST AND PENALTIES

As a taxpayer, there are certain legal obligations you are expected to meet when managing your taxes. If you fail to pay your taxes on time, it can result in IRS penalties, and in turn, compounding interest that can make your tax debt much larger. The IRS has the power to garnish your pay, take money from your bank account, or place a lien against or seize your personal property.



JOURNAL QUESTION: VIDEO 4.4

Summarize what Jon Acuff means when he talks about being willing to expand your “Three Circles” when looking for a job.

Section 5: Income and Taxes

NOTE: THERE ARE NO VIDEOS FOR SECTION 5

Benjamin Franklin said, “Only two things in life are certain: death and taxes.” The government relies on the revenue taxes create to meet their expenses and pay for services such as roads, education and social

services. While the specifics differ from state to state, the government taxes three economic bases to pay for its programs: income, consumption and wealth. Like it or not, taxes are a part of everyday life.

Taxes on Income

Income taxes are taxes paid out by anyone who earns an income. April 15 is the day that income tax filings are due in the United States. If you have overpaid throughout the year, you will receive a tax refund. If it is determined that you have underpaid, you will have an additional tax payment due. You will pay both federal and state income taxes (unless you live in a state that does not have an income tax). Income taxes are often subject to deductions or credits based on individual financial circumstances.

On your pay stub, you will notice three taxes taken out or deducted from your paycheck. These are commonly referred to as withholdings. When you are hired by a company, you will fill out a federal tax form called a W-4. The information on this form is the basis for determining how much income tax should be withheld from your paycheck. Payroll taxes, as these are commonly known, are a tax on income. Hence, you file an income tax return with the government every year you earn income.

The Three Taxes Are:

1. **Federal income tax**, which is used to support government programs. This is where the federal government gets much of its money. You work. They spend.
2. **State income tax**, which is used to support state services (if you work in a state without a state income tax, you will not have this withholding)

When you get your first job, you will quickly notice that a portion of your pay is taken out of your check for taxes. Taxes are a required contribution to local, state and federal governments and are used to fund government programs, infrastructure and agencies such as the military, public schools and roads.

THE INTERNAL REVENUE SERVICE (IRS)

The IRS is the federal government agency responsible for tax collection and tax law enforcement. It was created during the Civil War in 1862 to enact a national income tax to pay for war expenses.

**KNOW THE DIFFERENCE:
GROSS vs NET INCOME**

What do gross pay and net pay mean? Gross pay is what you make before any deductions. If a job is advertised as having a \$40,000 salary, then that's the gross pay. Net pay is what's left after taxes, health benefits and other deductions are taken out of your check. So a gross pay of \$40,000 would become something like a net pay of \$30,084.

For more information and educational activities on taxes, go to foundationsU.com/taxes.

3. FICA (Federal Insurance Contribution Act) tax pays for benefits that workers and families receive for either Social Security or Medicare. This tax is a flat tax (meaning the rate is constant). A single rate of 12.4% is applied to your income. Half of this tax is paid for by the employee in the form of payroll withholding. The other half is paid by the employer.

Taxes on Wealth

The primary tax on wealth is property tax.

- » Property tax is the main source of revenue for local governments. Taxes on land, private homes and business property are property taxes.
- » Some states tax certain types of personal property. This might include cars, boats and recreational vehicles.
- » Taxes on wealth include inheritance, estate and gift taxes.

Taxes on Consumption

The primary taxes on consumption are sales and excise tax.

- » **Sales tax** is tax on goods and services that goes to your state or local government. Sales tax is used by states as a source of their income, and each state sets its own tax rate.
- » **Excise tax** is levied on certain goods produced within a country and is sometimes referred to as luxury tax. This is used by both the state and federal government. Taxes on items such as gasoline, beer, liquor, cigarettes and airplane tickets are excise taxes.

Three Types of Income

* NOTE: All types of income are taxed.

- 1. Earned income:** Any income (wages/salary) that is generated by working. Earned income is taxed at a higher rate than any other type of income.
- 2. Portfolio income:** Income generated by selling an investment at a higher price than you paid for it. Portfolio income is sometimes referred to as “capital gains” because that’s how the money is taxed by the federal government. Portfolio income is often taxed at very high rates, sometimes as high as earned income.
- 3. Passive income:** Money earned on a regular basis with little or no effort required to maintain it. Some things that produce passive income are real estate, intellectual property like books or internet content, or a business in which the owner is not actively involved. Passive income often allows for the most favorable tax treatment.

JOURNAL QUESTION: SECTION 5

Describe some costs and benefits associated with paying taxes.



Budget Builder

As your income changes, so will your budget! Go to foundationsU.com/11 for your next budget lesson.

In the latest annual survey for the *National Association of Colleges and Employers*, companies planning to hire were most interested in grads who had majored in engineering, business, accounting, computer science or economics. Unfortunately, many students prefer majors such as social sciences, history, education and psychology, which aren't in high demand.