

Payes

Personal Finance Curriculum

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I. Curriculum Description

Personal Finance, by Payes, is a curriculum dedicated to helping you plan, coordinate, and excel. This material is targeted towards young adults, which means it will be going over necessary information for the financial present and it will be giving you information that will help you set up a comfortable financial future.

“Payes taught me what schools do not. We live in an age where knowledge about personal finance is a necessity, unfortunately our education system has failed this generation when it comes to financial knowledge. Payes helped me fill that gap in knowledge.” – Will Slingland

In The Personal Finance Curriculum, You will Learn How to...

- ☐ Save
- ☐ Budget
- ☐ Increase current revenue streams and create passive income streams.
- ☐ Pay debt while staying financially healthy.
- ☐ Learn how to use credit cards to your advantage
- ☐ Pay for large purchases
- ☐ Plan for retirement
- ☐ Invest (basics)
- ☐ Plan for college

This Curriculum Includes

- ❑ Hours of content.*¹
 - ❑ Exercises, quizzes, and tests to make sure you understand the information presented
 - ❑ 24/7 Curriculum Support: Ask us your questions, and we will do our best to answer them. Email: areebkhan280@gmail.com
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II. What Is Personal Finance?

Before we begin, we need to know what personal finance really is.

Personal finance is defined as the management of money and financial decisions for a person or family.

Why Should I Care About My Personal Finances?

Let's face it – society makes it hard to talk about money. Individuals, especially young adults, can feel discouraged by their income which can lead to neglect and ignorance. Ignoring personal finance is a self-fulfilling prophecy. No matter what, your financial choices will catch up to you.

It's better to educate, prepare, and face your choices now vs facing them later

A Few Reasons To Care About Personal Finance:

❑ Reduces Stress

Money is a double-edged sword, when managed correctly it can provide comfort and ease stress when managed incorrectly it can cause anxiety and build stress. You should care about money because it makes it easier to enjoy life.

Example: Philip has a beautiful Audi A5. He loves his car and receives a lot of praise for owning it, yet he doesn't get to enjoy it – Why? Philip has a monthly income of \$3,000 and his car costs \$667 a month. Instead of enjoying his luxury vehicle, he struggles to make ends meet with it and lives paycheck to paycheck. This is a situation that one should avoid – if Philip went with a cheaper vehicle he could save money, which would reduce stress and provide comfort.

❑ Allows You To Live By Your Own Rules

Financial burden can feel like you are at the will of your landlord, credit card company, bank, etc... Caring about money allows you to save, invest, and strategize. All of which will benefit you in the long run, and allow you to live by your own rules.

Example: You open your mailbox and what do you see? A reminder of another late payment from your credit card company. Your hard work and earnings will be going towards that payment AND you're going to have to pay interest on it, whether you like it or not. You are not living by your rules (financially) in this scenario; you are at someone else's will.

❑ Avoids Future Burden

Ignoring personal finance is procrastinating the inevitable; careless expenses add up, and it is better to deal with them now than to worry about your choices later.

Example: We're going to assume that Philip has been putting off his car payment of \$667 for a few months. He gets a letter in the mail that states that his car is getting repossessed. Guess what? Philip has now ruined his credit score, and he has lost all of his equity in the vehicle. Because of this, Philip will have a hard time getting loans, and he will have high interest rates.

❑ To Make Goals

Humans are goal-oriented creatures when we set goals and achieve them, it feels great. The same goes for finance, but with more benefits – it feels good and helps you in the long run. Money can be used for (mostly) anything, so it is the perfect motivation to get anything you want.

❑ Retirement

You do not want to be the one person who is working a nine-five when you are 60 years old. Sadly, this is a reality for a lot of individuals who did not save enough for retirement. Caring about personal finance will allow you to plan for retirement so that you will live comfortably when you are old.

Hopefully, this section helped you understand why personal finance is essential. Let's move on to vocabulary...

Vocabulary

You should memorize these vocab words before continuing. Not only will you see them in the curriculum, but you will encounter them throughout your life.

Note: Some words repeat, when they do, alternate definitions are provided.

If you do not want to view the words on this document, here is the link to the vocab list: https://quizlet.com/_6viv6u The password to the list is **PF2019**

Did You Get It? – Exercise 1

Section 1: Free Response

What are the 5 reasons that people should care about money?

List them **here**:

Section 2: Matching

Overdraft Fees	Rent	Claim	Loan	Foreclosure
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A regular payment made by a tenant to the owner for the use of the owner's building or land is _____

Money or assets borrowed that remains unpaid, excluding interest is a _____

A request is given to an insurance provider to recover the cost of a loss is a _____

Fees incurred when a customer withdraws more money from and an account ran what is available in the account is _____

A legal proceeding in which the creditor either sells or repossessed property for failure to repay a debt is _____

Section 3: Multiple Choice

1. A card issued by a bank or other business for purchases using borrowed funds to be paid pay back later
 - A. Overdraft Fees
 - B. Credit Card
 - C. Credit History
 - D. Closing costs
2. Money earned on a fixed basis
 - A. Dividend
 - B. Inflation
 - C. Insurance
 - D. Salary
3. An arrangement in which a person's pay is electronically transferred directly into their bank account
 - A. Credit report
 - B. Credit
 - C. Credit Card
 - D. Direct deposit
4. An investment program funded by shareholders that trade in diversified holding or assets
 - A. Student Loans
 - B. Annual fee
 - C. Mutual Fund
5. A way of saving so an employee has some money in retirement.
 - A. Credit History
 - B. Repossession
 - C. Fixed Expenses
 - D. Superannuation

Section 4: True/False

1. A payment made for the use of money that has been borrowed is

Management

A. True

B. False

2. A condition of insolvency where an individual or business is unable to pay

debts is *Bankruptcy*

A. True

B. False

3. An item or financial product on which a consumer expects to earn a profit

in the future is an *Investment*

A. True

B. False

4. To bring a bank statement and your own record into agreement is

Reconcile

A. True

B. False

III. How To Save Money

Now that you know why personal finance is important, you need to learn how to save money.

Saving money seems very straightforward, but it is actually a very complex process that requires strategies and various techniques.

In this unit, we will be going over strategies and techniques that you can use to your advantage.

Basic Ways to Save Money

❑ Record ALL Expenses

If you want to save money, you must figure out how much you are spending! If you record and keep track of every expense, you can figure out when and where you can save money. An individual who records their expenses is better off than one that does not.

❑ Set Goals

Setting goals can be a fantastic way to save up money. Goals allow us to stay motivated, and they form a structure in our lives. By setting goals, saving money does not have to be a hassle, it can be rewarding! Once you complete the goal, you will gain experience, and (hopefully) you can turn it into a habit.

❑ Manage Spending

This is a no brainer, if you manage your spending, you can save money! We'll be diving into ways that you can manage your spending later in this lesson.

❑ Set Up Automatic Savings

All major US banks offer automatic/scheduled transfers from your checking account to your savings account (vice versa). By setting up automatic savings you eliminate the temptation of spending your money, and if you want to go a step further you can automatically transfer a portion of any deposit to your savings account too!

Here is how

1. Log into your bank account
 2. Click your savings/checking account
 3. Press the transfer money button
 4. When on the transfer screen select which direction you want your money to go. It should be like this: **To:** Savings **From:** Checking
 5. Then select the “frequency” option and pick how often you want the transfer to complete! If these steps didn’t work for you contact our support team [here](#)
-

When looking through this list you will realize a common pattern, all of these “basic ways” are common sense yet they are very hard to apply – in the next section, we’ll look over apps that help make saving easier.

Great Apps for Saving Money

Saving money can be hard, fortunately, we live in an age where it has never been easier. Here are some great apps (No particular order//Not sponsored)

#1: Joy

Joy is a free iOS app. If you are on a tight budget, the Joy app may be a great way to find the money you did not think you had. Joy analyzes your income and habits and calculates how much money you can safely save every day. Money that you transfer goes to an FDIC insured savings account.

#2. Chime Banking

Chime banking is a mobile-only bank. Chime is available on iOS and Android. and it automatically transfers 10% of each paycheck into a separate Chime savings account. If you enroll in the automatic savings program, the app will round up each transaction, like acorns, and will deposit the amount into your savings account.

#3. Tip Yourself

Tip Yourself is a free app, which transfers money to a digital tip jar every time you carry out a personal goal. Tip yourself aims to help its users build habits of saving money and stay motivated while doing so. The app has a social center, and has a streaks feature, similar to snapchat.

30 Day Rule

If you have issues when it comes to saving money, you are not alone. Saving money is a commitment; it is extremely hard to make it a habit. The million-dollar question is, “what can I do to make saving money easier?” For starters, you might want to implement the strategies mentioned above and download some of the apps that I recommended.

After that, you may want to consider the **30-day savings rule**, a popular method that will help you set aside more money. Here is the premise: Instead of making an impulse purchase, you shelf the amount of that potential purchase for 30 days and deposit that money into your savings account. Wait for a month and if you still want to buy that item, go for it. If not, keep that money in your savings account.

By using the 30-day savings rule, you are boosting your savings over time and reducing the likeliness of unwanted impulse purchases. This, in turn, will help you boost your savings over time and control impulse purchases.

Example: You go to the apple store and see a new MacBook Air for \$1,300. You know that you have the money in your bank account for it, but you already have a laptop at home. Instead of buying it on the spot, you put the \$1,300 in your savings account. In 30 days, you can decide whether you want to buy the computer, or just keep the money in your account.

Lower Payments and Reduce Expenses

When it comes to lowering payments, there are many approaches one can take.

The first one on the list is **Refinancing**. Refinancing is when an existing obligation of debt is replaced by a new debt obligation under updated terms. Refinancing can decrease your interest rate, depending on the health of the economy and if you have good credit.

The reason why this would save you money is that a lower interest rate means less of your money will go to your loan provider, while more will go towards your principal within the property/item the money was loaned for.

The extra money could also go back into your bank account if you want it to, but the best decision when refinancing is to put the same amount of money that you were paying before the refinance into your monthly payments, as this will pay the item off faster over time.

Example: Joseph buys a \$200,000 house with a 30-year fixed mortgage while putting \$40,000 as a down payment (20%). Joseph's interest rate is 4.1% which makes his monthly payment \$1,039 (\$773 Loan, \$208 Property tax, \$58 insurance). Let us say, Joseph gets approved for a refinance and his interest rate drops to 3.2%. With the new interest rate, Joseph's monthly payment is \$958 (\$692 Loan, \$208 Property Tax, \$58 Insurance). Now Joseph can either pocket that extra \$81 a month, or he can put it back into his house to pay it off faster. It may seem like a minuscule amount, but that \$81 a month would add up to be \$29,160 in the principal of the house. That adds up to be 30 months of payments. Either way, by refinancing, Joseph is saving money.

The second technique is making a **larger down payment** when you buy an item. A down payment is an initial payment during the purchase of an item with significant value. Making a larger down payment increases initial cost but eventually it reduces monthly payments.

When buying multiple items on credit, the "small" payment amounts can add up, that is why it's always good to pay down a large amount, because your monthly payments will cost less as more is paid for initially.

Example: We are going to use Joseph and his house again. So based on the last example, Joseph bought a house for \$200,000 with a 30-year fixed mortgage while putting \$40,000 as a down payment (20%). So, this makes Joseph's payment \$1,039 a month (4.1% interest). Let us assume that this time, Joseph puts more down (40%) at the same interest rate. That would lower the payment from \$1,039 to \$846. This is because more money is put down initially, therefore less is borrowed; reducing the payment per month.

The last technique is **consolidating loans**. A consolidation loan is when you take out a loan to cover your debt. The reason this is desirable is because this could: Put all your debt under one payment, and it decreases the amount you pay in interest, as

the percentage will only be concentrated under one amount. Consolidating loans should be executed only when you know that you're saving money by doing so.

Example: Richard owes \$50,000 in debt. His debt is separated between multiple purchases and items. For example, he has \$20,000 in car loans (4.5% APR), \$17,000 in student loans (6.2% APR) and \$13,000 in technology loans. (21% APR). Other than the fact that Richard does not know how to manage his money, he also has high-interest rates on all his loans. To save money, if he gets approved, Richard can get a consolidating loan to cover all his debt and to put all of his interest under a fixed constant amount.

When it comes to **reducing expenses** all of these are viable ways. We go more in-depth on this in the budgeting section of the curriculum.

How to Build Savings

Savings are important, in fact, this whole unit has been about learning how to save in the first place. Unfortunately, building a healthy savings account is the hard part.

For example, why should you save if you're paying your bills on time, you have all of your necessities done, and a paycheck coming in. It seems like you've got your finances totally figured out, but until you have a stable savings account, you should not be comfortable at all. A healthy savings account is great for emergency expenses, when life throws you a curveball — and even better for when making a large purchase.

But it can be difficult to get motivated to save, or find the extra money to save, when you have other obligations. Here are a handful of ways, some obvious, some not so obvious, to quickly build up your savings account.

❑ Cut Unnecessary Expenses

Cutting expenses varies depending on spending styles; unnecessary expenses should not be prioritized, and you should build up a savings account before having them. The budgeting section will go over this more.

Example: Martha cut Cable, Netflix, and Spotify. This adds up to be \$120 which she put into her savings account for a year. Now that she has a decent amount saved, she can renew these subscriptions

***NOTE:** We are not saying it is bad to spend money on things you enjoy, just prioritize your savings account before spending money on unnecessary purchases.

❑ Exclusively Save Extra Money/Side Income

Using a side income to increase your savings is a quick, easy, and effective way to increase the balance of your savings account. Exclusively saving money or a side income is by far the easiest method, as it does not impact your lifestyle as much as other methods.

Example: Josiah makes \$500 a month mowing lawns. Instead of saving from his primary income, he puts all of the money he makes from mowing into his savings account.

❑ Set Up Automatic Transfers

Automatic Transfers are a no-hassle way to save. Automating a transfer takes the hard part of saving, psychological temptation, out of the picture. [Click here](#) for a more in-depth explanation.

❑ Incorporate Saving Into Your Budget

Having a great budget includes knowing what you typically spending your hard earned cash on, so why not include savings? The budgeting section will dive into this in a more in-depth manner.

This section is a bit awkward as it includes a lot of points from other sections, but we believe it is necessary to cover as it is important for the next section, which is emergency funds.

Emergency Fund

Before we begin, we have to specifically know what an emergency fund is. An emergency fund is a readily available source of assets or capital to help one navigate financial hardship such as the loss of a job, a major repair, or a medical expense. The purpose of an emergency fund is to improve personal financial

security by creating a safety net of cash or other liquid assets that can be used to meet said expenses. Emergency funds can also be used to exit high-interest debt options, such as credit cards, student loans, or unsecured loans.

A typical emergency fund should contain enough capital/assets to cover between three to six months worth of expenses. Emergency funds can be comprised of cash, stocks, precious metals, and more; the key rule to remember is whatever is in your fund has to be highly liquid, if it is not you will not be able to sell it quickly, thus rendering the fund useless.

Example: Daniel has expenses totaling to \$3,000 a month. For Daniel to have a healthy emergency fund, he would have to set aside \$9,000 minimum ($3,000 \times 3$) and up to \$15,000 if he wants a 6 month fund. ($3,000 \times 5$). However, Daniel does not keep all of his money in the form of cash; he has \$7,000 in stocks, \$5,000 in cash, and \$3,000 in the form of precious metals. Although his fund varies in form, the function remains as it consists of highly liquid assets.

One may ask, why do I need an emergency fund? According to the Federal Reserve, 39% of Americans would not be able to pay an unplanned expense of \$400 with cash or savings. That means the people who would not be able to pay the expense would be forced to take out a loan, or use a credit card, which digs them in a deeper hole. An emergency fund helps avoid this cumbersome situation.

When it comes to actually building an emergency fund, starting early is the key as it gives you more time to save, and helps build up a comfortable cushion for unexpected emergencies. Here are some strategies for setting up an emergency fund.

❑ Start Small and Scale

When starting out a fund, you may find it daunting to cover expenses for so many months. This is why you should start small; it reduces frustration and motivates you to keep going.

❑ Use the techniques for building a savings account

The section on building a savings account also applies to building an emergency fund. [Click here](#) to go to that section.

❑ Set aside a comfortable amount from your salary each month.

Calculate your living expenses for 3–6 months and make that amount your target for an emergency fund. Then, you can set aside a certain amount from your salary to fill up that balance.

☐ **Save your tax returns**

When you get your tax return, put that money in a savings account or towards your emergency fund.

Did You Get It? – Exercise 2

Section 1: Free Response:

Name the basic ways people can save money:

Name a few apps that make saving easier:

Section 2: Matching/Fill in The Blank

Down Payment	Emergency Funds	30 day savings rule	Refinancing	Chime banking
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An initial payment made when something is bought on credit is a

_____.

_____ can also be used to exit high interest debt.

_____ is a great way to get a new interest rate (if you have good credit).

_____ transfers 10% of your paycheck into a separate savings account.

Section 3: True/False

1. A typical emergency fund should cover about a month's worth of expenses.
 - A. True**
 - B. False**
2. According to the Federal Reserve, 39% of people would not be able to pay for an unplanned expense of \$400 or more.
 - A. True**
 - B. False**
3. A larger down payment increases the amount you have to pay every month.
 - A. True**
 - B. False**
4. You have to have a good credit score in order to refinance.
 - A. True**
 - B. False**

IV. Budgeting

Now that we know the basic ways of saving money, it is time to discuss budgeting. Budgeting takes a lot of discipline and, dare I say it, skill. When executed correctly an efficient budget is the foundation of a healthy life, financially.

That leads us to the first section of chapter 4...

Why Budgeting is Important/Benefits

Budgeting is the process of creating a plan to spend your money. This plan is called a budget. A common misconception about budgets is that they are only for restricting your income and they are meant to sway you from things that you like.

This is wrong, budgeting is simply balancing your expenses in ordinance with your income. A good budget will have room for you to spend money on things that you enjoy.

Budgeting is important because it ensures that you will have money set aside for necessities and for things that are important to you. Budgeting helps you keep track of all of your expenses, and makes it easier to save. Most importantly, following a good budget will help you work off your debt or keep you out of debt.

So to review the main benefits, if they are not obvious enough, budgeting: Helps you keep track of your money, gives you control, keeps you out of debt, allows you to spend responsibly on things you enjoy, and creates a healthy financial picture for your future.

Once you have a budget intact, you can start forecasting future expenses which lets you prepare your expenses ahead of time.

It is important to note that budgeting does not guarantee success, but it certainly helps prevent failure.

The 50/30/20 Rule

The 50/30/20 rule is a personal favorite of mine because of how efficient, simple, and easy it is to implement it. The 50/30/20 rule was originally brought up by senator/presidential candidate, Elizabeth Warren in her book, "All Your Worth: The Ultimate Lifetime Money Plan."

❏ How It Works

The basic gist of the 50/30/20 rule is to divide your after-tax income into increments of 50%/30%/20%. The 50% is spending based on needs, the 30% is spending based on wants, and the last 20% is allocated to savings. We will be defining these based on the set definitions from the book.

❏ Needs

Needs make up half of the budget, and are expenses that are necessary for survival, or the expenses that you must pay to get by. Some examples of needs are, groceries, rent/mortgage, any debt, insurance, utilities, and healthcare. Obviously there are more examples than the ones listed above; the basic rule to go by when it comes to needs is if it is an expense that is necessary for survival and/or your wellbeing include it.

❏ Wants

Wants are purchases that are not essential. Now on first glance, this may seem like a lot to put aside but you will realize that wants include your netflix subscription, cable, spotify, wifi etc... When budgeting within the 50/30/20 rule, a want is something that you can live without.

❏ Savings

If you have been paying attention at all in this course, you should know what goes here. In the 50/30/20 rule, allocate 20% of your income to savings. This can include adding money to your investments, emergency fund, putting more capital in a property, retirement contributions, or just buying highly liquid assets.

Now that you have learned what the 50/30/20 rule is, here is a link/download to a spreadsheet that helps you track your expenses based on this rule

Google Sheets: Once you get on this page, click file, then download it or make a personal copy.

<https://docs.google.com/spreadsheets/d/1nHi-MtlyjAFX6mfUeuzAFWr2Inl2RucDit-cachjR-Q/edit?usp=sharing>

Google Drive: This is a Microsoft Excel file

<https://drive.google.com/open?id=1wvol2D8QAoGU7WeeGNQ6UyZ1IYk9mKaF>

Different Kinds Of Budgets

There are many other kinds of budgets and strategies other than the 50/30/20 rule. In my personal opinion, I think the 50/30/20 rule is the best budgeting strategy because it is very easy to integrate within your life and it promotes good financial habits without interfering with your life too much.

We understand that the 50/30/20 rule might not work for everyone so here are some alternate options.

❏ The Zero Based Budget

The basic premise of the zero based budget is that you spend every single dime that you earn. With a zero based budget you track your income, categorize your expenses and then spend your money to \$0. It sounds contradictory, but this example will explain:

Neil is a mechanical engineer and makes \$13,000 a month. He uses the zero based budget strategy; this is what it looks like for him.

$$\begin{array}{l} \$6,000 \text{ for his mortgage, utilities, taxes, and insurance} + \$500 \text{ Food} + \\ \$1000 \text{ healthcare} + \$3,500 \text{ Debt (student loan, car, credit card)} + \$2,000 \text{ Savings/Retirement} = \\ \$0 \text{ Left over} \end{array}$$

❑ The Anti-Budget

Oh boy, this one is interesting. This budget is amazing if you have willpower and if you can control yourself. The premise of the budget is simple; you set aside some set percentage of your income each month and then you can just spend the rest. It is not time consuming at all as you do not have to track any of your expenses, but in my opinion it is a budget that is easier said than done. For this budget to work, you have to set aside more than 30% of your income; that takes commitment, discipline, and skill. Also, this budget leaves you susceptible to unnecessary/impulse purchases. Bottom line, I think it is interesting -- personally I have never tried it -- but if you end up going with this one, be careful.

❑ Save First Budget (80/20 Applies here too)

The save first budget is exactly what it sounds like, when you get your paycheck you save money first before spending. For me, this is another one of those budgets where I think it sounds better in theory than in application. This budget will help you build a savings account and an emergency fund, but it leaves the rest of your income unregulated. The 50/30/20 rule is basically the same thing as this but it regulates the income that is not being saved.

❑ Make Your Own!

There are thousands of budgets out there, the ones I mentioned are very popular and widely used. That being said, you can find some templates on google or even make your own; if you can categorize your income, you can make a viable budget. Personally, I do not make my own budgets, so I can not teach you how to make an actual budget as I follow the 50/30/20 rule. Here are some articles that are great for teaching you how to make your own budget.

5 Simple Steps to Create a Successful Budget:

<https://www.payoff.com/life/money/5-simple-steps-to-create-a-successful-budget/>

Better Money Habits:

<https://bettermoneyhabits.bankofamerica.com/en/saving-budgeting/creating-a-budget>

Step-By-Step Guide:

<https://www.thebalance.com/how-to-make-a-budget-1289587>

Did You Get It? – Exercise 3

Section 1: Free Response

List the 5 kinds of budgets that were talked about in this chapter:

Section 2: Multiple Choice

1. A budget where all income is spent to \$0
 - A. 50/30/20
 - B. Save First Budget (80/20)
 - C. Anti-Budget
 - D. The Zero Based Budget
6. "The premise of the budget is simple; you set aside some set percentage of your income each month and then you can just spend the rest." What budget is this?
 - A. Random online budget
 - B. Anti-Budget
 - C. Zero Based Budget
 - D. Save First
7. Which definition most accurately depicts the purpose of budgets?
 - A. A budget is meant to restrict you so you do not buy the things you enjoy
 - B. Budgets are meant to keep you on track, financially, at the expense of time and debt.

C. The purpose of a budget is to balance your expenses in accordance to your income.

Section 3: True/False

1. Wants include essential and non-essential purchases.
 - A. True
 - B. False
2. The 50/30/20 rule was created by legendary investor, Warren Buffett.
 - A. True
 - B. False
3. Needs include expenses that allow you to “get by”
 - A. True
 - B. False
4. The anti-budget is high maintenance and time consuming.
 - A. True
 - B. False

V. Passive and Active Revenue Streams

"If you don't find a way to make money while you sleep, you will work until you die." – Warren Buffett

What are the Different Kinds of Income?

There are three main types of income: passive, active (earned), and portfolio.

Passive income is money that is earned with minimal to no maintenance, and effort. Some examples of passive income streams are dividends, bonds, rental properties (if you own them) interest on savings accounts, and basically anything that makes you money with minimal to no effort. Basically, if it makes you money when you sleep, it is passive income.

Active income is money that is earned by physical labor and effort. Active income requires continuous human effort. An example of an active revenue stream is a 9–5 job.

Portfolio income is derived from various types of investments like stocks, bonds, mutual funds, and annuities.

How to Increase Passive/Portfolio Income

There are many ways to increase passive income streams. Most people do not have passive income in the first place, so we have to learn how to create streams in the first place. So to start, you can increase passive income by investing in stocks that pay high dividends, buy real estate, or anything else that generates money while you sleep.

To increase passive income just put more money into things that can make you money overnight. Whether it is making a new business, or increasing your dividend portfolio amount by a few thousand dollars, all of these methods increase passive income.

So bottom line, to increase passive income you have to put \$ into assets initially that will make you money slowly over-time.

Example: Isabella wants to create a passive income revenue stream, to do so she puts a \$20,000 down payment on a house that is \$200,000 so she can rent it out for \$1,500 a month. If Isabella wants to increase her income from here she can put a downpayment on another house, if she has

the capital, and create another income stream. The main takeaway is that if you want to increase/create passive income revenue streams you have to put down initial capital.

How to Increase Active Income Streams

Active income is what makes up most of our society. If you have a job, that is an active revenue stream. Usually, active income makes up most of your overall revenue stream.

The danger of active income is that it is contingent on how much you work, what your income is, and how your health is.

So it is important to have passive income streams because it reaffirms your active streams, and creates a safety net. When it comes to increasing active streams you can pick up something that makes you money physically. Whether it is mowing lawns, asking your boss for a raise, or getting a part-time job these all qualify as active streams.

The rule of thumb is that if you use physical, continuous effort it is active income.

So either increasing your compensation for how many hours you work (wage) or getting another job, there are many ways to increase your stream of income.

VI. Debt

This is an important chapter because it is a huge problem among young adults. In fact, young/millennial debt is the reason I started this company as I was frustrated with the lack of education for young adults.

By definition, debt is something, typically money, which is owed or due. In the context of this curriculum, we will assume that debt only involves money.

Good Debt Vs Bad Debt

Believe it or not, **debt can be good.**

Now before I explain, I need to make something clear: if managed incorrectly, good debt can be dangerous. A lot of planning and financial alignment is necessary in order to take on good debt.

In general, **good debt** is an investment that will grow in value or generate long term income.

For example, if you buy a rental property you are technically taking on debt. But, if managed correctly and responsibly, it is good debt because its an investment that will grow in value and, if you picked a good location, it will generate long term income.

So the rule of thumb for differentiating good debt from bad depth is that good debt **will grow in value or generate long term income for you.**

❑ Bad Debt

You should always avoid bad debt, which is debt that is not contributing to your net worth currently or in the future. Also bad debt is debt with high interest rates which suck you into more financial hardship and cause more issues.

Bad debt should always be avoided. The general rule when it comes to debt is, will it help you in the future? And can you afford taking it on. If you can not **DO NOT TAKE ON DEBT.**

Once again, good debt takes a lot of research. Consult with a professional advisor before taking on any forms of debt. This curriculum is purely educational, we understand all of this is circumstantial.

How You Can Pay Off Debt

Make sure to consult with a financial advisor when actually paying debt amounts, the purpose of this section is to give you an idea, not to actually tell you what to do.

In my personal opinion, the best way to pay off debt is the debt snowball method – invented and popularized by Dave Ramsey.

Here is how it works:

First list out your debt from smallest to largest balance-wise. Exclude your mortgage if you have one. Dave Ramsey says to disregard interest rates when writing your debt out, but I disagree, include your interest rates as they are technically part of the debt.

Next, prioritize your money on the lowest debt balance while making minimum payments on all your other debts. If you are doing this step right, more money should be going into the lowest payment, percentage wise, compared to your other payments.

After you pay off the smallest debt amount, take the amount you were paying and prioritize it onto your next payment.

Continue this method and repeat.

All credit goes to Dave Ramsey, here is a video where he explains it.

<https://youtu.be/7ZUgqorlxCQ>

Other ways include: Making a budget and setting aside certain amounts every month for paying debt off or working an extra job. The [How to Save Money Section](#) also applies here.

Credit Cards

Credit cards, the epitome of millennial finance. Credit cards are interesting because they can be beneficial or destructive depending on the usage.

Sadly for most young adults, credit cards cause more harm than good, due to lack of education.

Now quick disclaimer: I actually think credit cards are great, IF USED PROPERLY. If not, they can be destructive. I am not responsible for what you do with your money and your credit card(s).

Credit cards are important for building a credit score. A credit score is a numerical expression to represent the worthiness of an individual. The higher your credit score, the easier it will be to get loans and you will be given lower interest rates as you are seen as trustworthy.

❑ **How Credit Cards Work**

Credit cards allow you to spend money on credit. Basically, it is a mini loan that you have to pay back every month. If you do not pay that amount back, it becomes debt and you have to pay interest on it. This is how credit card companies make money.

Now you may be asking, “why would I want one then” and the answer to that is credit cards provide benefits for spending money on them. For example, some cards give you a certain percentage of cash back other cards give you miles which you can use for traveling; all of these are benefits that debit cards cannot provide.

There are so many benefits and they depend based on what card you use. If you want a credit card, I will not be listing any credit cards here so do your own research and find a card that works for you.

❑ **How to Use Credit Cards Responsibly**

Pay off your balance every month and never skip a payment. If you have a credit card, no matter what, make sure to do this. The interest rates on credit cards are atrocious and the debt piles up. Also, by not doing so you can lower your credit score.

Use your credit card for your needs. Usually, needs are a priority for most people. By paying for your needs on credit, you can rack up points/cash back bonuses. The beauty of this is that you are going to spend money on needs anyways, so with credit cards you can get a bit of a discount/benefit out of these purchases because of various programs. If you proceed to do this, make sure to pay your balance off right away, or else you might go into debt which defeats the purpose.

Did You Get It? Exercise 4

Section 1: Free Response

How do credit cards work?

Section 2: Multiple Choice

8. A card issued by a bank or other business for purchases using borrowed funds to be paid pay back later
 - A. Overdraft Fees
 - B. Credit Card
 - C. Credit History
 - D. Closing costs
9. Which of the following most accurately depicts the rule of thumb for good debt.
 - A. Decreases your net worth
 - B. Bought on credit
 - C. Decreases net worth initially, long term investment for profit.
 - D. There is no such thing as good debt.
10. The snowball method was invented and popularized by...
 - A. Graham Stephan
 - B. Areeb Khan
 - C. Warren Buffett
 - D. Dave Ramsey
11. Which of the following is an example of good debt
 - A. Mortgage
 - B. Credit card debt
 - C. Car loan
12. A way of saving so an employee has some money in retirement.
 - A. Credit History
 - B. Repossession

C. Fixed Expenses

D. Superannuation

Section 3: True/False

1. Payes is responsible for what you do with your money.

A. True

B. False

2. Credit cards can be taken advantage of when used correctly

A. True

B. False

3. In the snowball method, you pay off your highest debt amount first.

A. True

B. False

4. When spent on needs, credit cards basically give you free points because you would spend that money anyways.

A. True

B. False

VII. Taxes

Here is the truth, the US tax code is complicated. Another truth is that for a functioning society taxes are a necessity.

Tax rates and methods of taxation are debated upon so we will not go into political/tax related arguments, this section is purely based on the current tax code in the United States of America.

How the Tax System Works

In general, tax is money that the government collects in order to pay for various services that the government provides. For example, roads, police, schools, and various public services are funded by taxes. Every year on April 15th, Americans are supposed to send their income taxes to the government.

The American income tax system is a progressive tax system which means tax rates increase for the individuals who make more money in society.

All money you make during the year is considered income no matter how you make it. This includes [passive and active](#) income. For example, a job with a wage, winning the lottery, and selling things online are all forms of income. Capital gains are not included in this. Capital gains are when profit that results from a sale of a capital asset, such as a stock, bond or real estate exceeds the purchase price. With capital gains you will pay half of your income tax rate.

Businesses have different tax systems which we will not get into. Soon, Payes will launch an ecommerce/business curriculum for free which will cover this.

Tax Brackets

Like we stated earlier, America has a progressive tax system, therefore the more you make – the more you pay.

First of all, a tax bracket refers to a range of various incomes that are subject to an income tax rate

As of November 22 2019, there are seven federal tax brackets, each with a different rate; starting at 10% and ending at 37%.

There are four kinds of taxable brackets: Single, Married (Filing Jointly), Married (filing separately) and Head of Household. So depending on your status, your tax rates will vary.

Tax rate	Single	Married, filing jointly	Married, filing separately	Head of household
10%	\$0 to \$9,700	\$0 to \$19,400	\$0 to \$9,700	\$0 to \$13,850
12%	\$9,701 to \$39,475	\$19,401 to \$78,950	\$9,701 to \$39,475	\$13,851 to \$52,850
22%	\$39,476 to \$84,200	\$78,951 to \$168,400	\$39,476 to \$84,200	\$52,851 to \$84,200
24%	\$84,201 to \$160,725	\$168,401 to \$321,450	\$84,201 to \$160,725	\$84,201 to \$160,700
32%	\$160,726 to \$204,100	\$321,451 to \$408,200	\$160,726 to \$204,100	\$160,701 to \$204,100
35%	\$204,101 to \$510,300	\$408,201 to \$612,350	\$204,101 to \$306,175	\$204,101 to \$510,300
37%	\$510,301 or more	\$612,351 or more	\$306,176 or more	\$510,301 or more

Here is a common misconception, just because you are making a certain amount of money, does not limit you to that tax rate only. Since the tax brackets apply only to the portion of the income within the “bracket” taxpayers must look at multiple brackets to get a sense of their rates: unless they fall into the minimum bracket.

Christopher makes \$170,000 in 2019 (single filer).

His first \$9,700 is subject to a 10% tax via the first tax bracket.

10%	\$0 to \$9,700	\$0 to \$19,400	\$0 to \$9,700	\$0 to \$13,850
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Then, he is subject to a 12% tax rate from \$9,701 to \$39,477.

12%	\$9,701 to \$39,475	\$19,401 to \$78,950	\$9,701 to \$39,475	\$13,851 to \$52,850
------------	---------------------	----------------------	---------------------	----------------------

Following this, he is subject to a 22% tax rate from \$39,476 to \$84,200

22%	\$39,476 to \$84,200	\$78,951 to \$168,400	\$39,476 to \$84,200	\$52,851 to \$84,200
------------	----------------------	-----------------------	----------------------	----------------------

Then from \$84,201 to \$160,752 the rate is 24%

24%	\$84,201 to \$160,725	\$168,401 to \$321,450	\$84,201 to \$160,725	\$84,201 to \$160,700
------------	-----------------------	------------------------	-----------------------	-----------------------

Then from \$160,752 to \$170,000 (his income) the rate will be 32%.

32%	\$160,726 to \$204,100	\$321,451 to \$408,200	\$160,726 to \$204,100	\$160,701 to \$204,100
------------	------------------------	------------------------	------------------------	------------------------

Therefore, Christopher earns \$170,000 but he does not just pay at the 32% rate, in fact, only \$9275 (\$170,000 – \$160,726) is being taxed at that rate.

Basics of Filing

In order to file taxes, you have to choose a form and see if you need to file. Luckily, the IRS has an [Interactive Tax Assistant tool](#) to help you find out if you need to file by answering a series of questions.

Next, we are going to go over the most common kinds of tax forms. We will be going over the content of each form, not the qualifications.

Form 1040

Form 1040 is usually the starting point for taxpayers. The 1040 form is extremely comprehensive and is meant for people who: make more than \$100,000 a year, are reporting self employment income, or need to itemize their deductions.

The image shows the top portion of the 2018 Form 1040, U.S. Individual Income Tax Return. The form is titled "1040 U.S. Individual Income Tax Return 2018" and includes the IRS logo and "Department of the Treasury—Internal Revenue Service (99)". It also displays the OMB No. 1545-0074 and the instruction "IRS Use Only—Do not write or staple in this space."

The form is divided into several sections for filing status, standard deduction, and dependents. The "Filing status" section includes checkboxes for Single, Married filing jointly, Married filing separately, Head of household, and Qualifying widow(er). The "Your standard deduction" section includes checkboxes for Someone can claim you as a dependent, You were born before January 2, 1954, and You are blind. The "Spouse standard deduction" section includes checkboxes for Someone can claim your spouse as a dependent, Spouse was born before January 2, 1954, Spouse is blind, and Spouse itemizes on a separate return or you were dual-status alien. The "Home address" section includes a field for the address and a checkbox for Apt. no. The "Presidential Election Campaign" section includes checkboxes for Yes and Spouse. The "Dependents" section includes a table for listing dependents with columns for (1) First name, (2) Social security number, (3) Relationship to you, and (4) Child tax credit and Credit for other dependents. The "Sign Here" section includes fields for the preparer's name, signature, date, and occupation, as well as fields for the spouse's signature, date, and occupation. The "Paid Preparer Use Only" section includes fields for the firm's name, address, PTIN, and phone number, as well as checkboxes for 3rd Party Designee and Self-employed.

Form 1040EZ

The 1040EZ is the most basic and the most simple tax filing form. The 1040EZ eliminates the complexity of the 1040 as it condenses the form into essentials only. This form does not include income from capital gains, dividends, alimony, and self-employment.

Department of the Treasury—Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** 2014 OMB No. 1545-0074

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/country Foreign postal code

Income

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2. 1

2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. 2

3 Unemployment compensation and Alaska Permanent Fund dividends (see instructions). 3

4 Add lines 1, 2, and 3. This is your **adjusted gross income**. 4

5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back.
☐ You ☐ Spouse
If no one can claim you (or your spouse if a joint return), enter \$10,150 if **single**; \$20,300 if **married filing jointly**. See back for explanation. 5

6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income**. 6

Payments, Credits, and Tax

7 Federal income tax withheld from Form(s) W-2 and 1099. 7

8a **Earned income credit (EIC)** (see instructions) 8a

b Nontaxable combat pay election. 8b

9 Add lines 7 and 8a. These are your **total payments and credits**. 9

10 **Tax**. Use the amount on line 6 above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line. 10

11 Health care: individual responsibility (see instructions) Full-year coverage ☐ 11

12 Add lines 10 and 11. While it may seem like you have a refund, you do not. 12

Form 1040A

Form 1040A is a compromise between the 1040 and 1040EZ. The main point of 1040A is that it allows you to claim more credits at the expense of not being able to itemize deductions.

Department of the Treasury—Internal Revenue Service

Form **1040A** **U.S. Individual Income Tax Return** 2014 IRS Use Only—Do not write or staple in this space. OMB No. 1545-0074

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name Foreign province/state/country Foreign postal code

Filing status

1 ☐ Single 4 ☐ Head of household (with qualifying person). (See instructions.)
2 ☐ Married filing jointly (even if only one had income) If the qualifying person is a child but not your dependent, enter this child's name here. 4
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. 5 ☐ Qualifying widow(er) with dependent child (see instructions)

Exemptions

6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a. Boxes checked on 6a and 6b: No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above 6c

b ☐ Spouse

c Dependents:

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)

d Total number of exemptions claimed. Add numbers on lines above 6c

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7

8a **Taxable interest**. Attach Schedule B if required. 8a

W-2 Form

The W-2 form is known as the Wage and Tax Statement. It is required if businesses pay out more than \$600 for a year's worth of work. If you have ever worked a wage job you should be familiar with the W-2.

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name Suff.		11 Nonqualified plans		12a	
		13 Statutory employee Retirement plan Third-party sick pay		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code		15 State Employer's state ID number		16 State wages, tips, etc.	
		17 State income tax		18 Local wages, tips, etc.	
				19 Local income tax	
				20 Locality name	

Form W-2 Wage and Tax Statement 2019
 Copy 1—For State, City, or Local Tax Department
 Department of the Treasury—Internal Revenue Service

W-4 Form

The W-4 form or, The Employee's Withholding Allowance Certificate, is a form that you are asked to file before working. The main purpose of this form is to indicate how much tax should be withheld from your paycheck.

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

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 2019	
1 Your first name and middle initial		Last name		2 Your social security number	
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."			
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>			
5 Total number of allowances you're claiming (from the applicable worksheet on the following pages)		5		6 \$	
6 Additional amount, if any, you want withheld from each paycheck					
7 I claim exemption from withholding for 2019, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶ 7					
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.					
Employee's signature (This form is not valid unless you sign it.) ▶					
8 Employer's name and address (Employer: Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Directory of New Hires.)		9 First date of employment		10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 10220Q Form **W-4** (2019)

Form 1099-Misc (Miscellaneous)

The 1099-Misc is used for self-employed individuals. Freelancers and contract workers are probably familiar with this form. This form is used to calculate liabilities for individuals who have made more than \$600 through self employment work.

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	OMB No. 1545-0115 2019 Form 1099-MISC	Miscellaneous Income
		2 Royalties \$	4 Federal income tax withheld \$	
PAYER'S TIN	RECIPIENT'S TIN	3 Other income \$	5 Fishing boat proceeds \$	Copy B For Recipient
		6 Medical and health care payments \$	7 Nonemployee compensation \$	
RECIPIENT'S name		8 Substitute payments in lieu of dividends or interest \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		10 Crop insurance proceeds \$	11	
City or town, state or province, country, and ZIP or foreign postal code		12	13 Excess golden parachute payments \$	
Account number (see instructions)		14 Gross proceeds paid to an attorney \$	15a Section 409A deferrals \$	
FATCA filing requirement <input type="checkbox"/>		15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.
		18 State income \$		

Form **1099-MISC** (keep for your records) www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

Form 8962

The purpose of Form 8962 is for health care coverage to be reported on tax returns. Depending on the situation, individuals might qualify for the premium tax credit, which helps pay for healthcare coverage offered through the Health Insurance Marketplace. Form 8962 is used to calculate the amount of credit you receive for this marketplace.

Form **8962** **Premium Tax Credit (PTC)** OMB No. 1545-0074
Department of the Treasury Internal Revenue Service **2014**
Attachment Sequence No. 73
Name shown on your return Your social security number

▶ Attach to Form 1040, 1040A, or 1040NR.
▶ Information about Form 8962 and its separate instructions is at www.irs.gov/form8962.

Relief (see instructions) ☐

Part 1: Annual and Monthly Contribution Amount

1 Family Size: Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d **1**

2a Modified AGI: Enter your modified AGI (see instructions) **2a** **2b** Enter total of your dependents' modified AGI (see instructions) **2b**

3 Household Income: Add the amounts on lines 2a and 2b **3**

4 Federal Poverty Line: Enter the federal poverty amount as determined by the family size on line 1 and the federal poverty table for your state of residence during the tax year (see instructions). Check the appropriate box for the federal poverty table used. a ☐ Alaska b ☐ Hawaii c ☐ Other 48 states and DC **4**

5 Household Income as a Percentage of Federal Poverty Line: Divide line 3 by line 4. Enter the result rounded to a whole percentage. (For example, for 1.542 enter the result as 154, for 1.549 enter as 155.) (See instructions for special rules.) **5** %

6 Is the result entered on line 5 less than or equal to 400%? (See instructions if the result is less than 100%.)
☐ Yes. **Continue to line 7.**
☐ No. You are not eligible to receive PTC. If you received advance payment of PTC, see the instructions for how to report your Excess Advance Payment amount.

7 Applicable Figure: Using your line 5 percentage, locate your "applicable figure" on the table in the instructions **7**

8a Annual Contribution for Health Care: Multiply line 3 by line 7 **8a** **8b** Monthly Contribution for Health Care: Divide line 8a by 12. Round to whole dollar amount **8b**

Part 2: Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Did you share a policy with another taxpayer or get married during the year and want to use the alternative calculation? (see instructions)
☐ Yes. Skip to Part 4, Shared Policy Allocation, or Part 5, Alternative Calculation for Year of Marriage. ☐ No. **Continue to line 10.**

10 Do all Forms 1095-A for your tax household include coverage for January through December with no changes in monthly amounts shown on lines 21-32, columns A and B?
☐ Yes. **Continue to line 11.** Compute your annual PTC. Skip lines 12-23.
☐ No. **Continue to lines 12-23.** Compute your monthly PTC and continue to line 24.

Annual Calculation	A. Premium Amount (Form(s) 1095-A, line 33A)	B. Annual Premium Amount of SLSCP (Form(s) 1095-A, line 33B)	C. Annual Contribution Amount (Line 8a)	D. Annual Maximum Premium Assistance (Subtract C from B)	E. Annual Premium Tax Credit Allowed (Smaller of A or D)	F. Annual Advance Payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals						
Monthly	A. Monthly Premium Amount (Form(s) 1095-A, line 33A)	B. Monthly Premium Amount of SLSCP	C. Monthly Contribution Amount (Amount from line 8a)	D. Monthly Maximum Premium Assistance	E. Monthly Premium Tax Credit Allowed	F. Monthly Advance Payment of PTC

Tax Deductions and Credits

Deductions reduce the amount of income the government taxes. Deductions can be acquired through donations, business purchases, even education in some scenarios. The value of tax deductions are determined by the tax rate you reside in.

Tax credits reduce your taxes on a dollar to dollar basis. For example, a \$3,000 credit would reduce your tax bill by \$3,000.

Basic Information Required to File Taxes

- ☐ Filing Status
- ☐ Address
- ☐ Date of birth
- ☐ Whether you are claiming standard deductions
- ☐ SSN, Name, etc...

Tax Schedules

The IRS requires you to prepare a special form in addition to your tax return when you have special circumstances. These are divided into various “schedules” which are transferred to the tax form you are using.

Schedule A

Schedule A is the form where you report the amount of your itemized deductions. Deductions listed on Schedule A include some state taxes, mortgage interest, medical expenses, and charitable contributions.

Schedule B

Schedule B is an income schedule that requires you to separately list sources of interest and dividend payments you receive during the year.

Schedules C and C-EZ

Schedules C and C-EZ are forms that you use for self-employment income. Both forms separately report your business earnings and deductions which is then added to your other income on Form 1040.

Schedule D

If you sell capital assets throughout the year, then you must report it on a Schedule D attachment to your tax return. An example of capital asset transactions is when you buy and sell stocks, but it can include any other property you sell during the year of reasonable value. The form separates your transactions into short/long term transactions. For a transaction to be considered long term, it has to be held on to for more than one year.

Schedule SE

This form is for people who are self employed. Even if you are self employed you are responsible for paying Social Security tax on your earnings so this form is what enables you to do so.

State Forms

Each state that collects taxes has their own tax forms that are required to be submitted. If you live in one of the 7 states that does not collect state taxes, then forms are not required.

Answer Key

Did You Get It? – Exercise 1

Section 1: Free Response

1. Answer: To reduce stress, allows you to live by your own rules, avoid future burden, set goals, and plan for retirement

Explanation:

Section 2: Matching

1. Answer: Rent

Explanation:

2. Answer: Loan

Explanation:

3. Answer: Claim

Explanation:

4. Answer: Overdraft Fees

Explanation:

5. Answer: Foreclosure

Explanation:

Section 3: Multiple Choice

1. Answer: B

Explanation:

2. Answer: D

Explanation:

3. Answer: D

Explanation:

4. Answer: C

Explanation:

5. Answer: D

Section 4: True/False

1. Answer: B

Explanation:

2. Answer: A

Explanation:

3. Answer : A

Explanation:

4. Answer :

Explanation:

Did You Get It? – Exercise 2

Section 1: Free Response

1. Answer

Explanation:

2. Answer

Explanation:

Section 2: Matching/Fill In the Blank

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

5. Answer

Explanation:

Section 3: True/False

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

Did You Get It? – Exercise 3

Section 1: Free Response

1. Answer

Explanation:

Section 2: Multiple Choice

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

Section 3: True/False

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

Did You Get It? – Exercise 4

Section 1: Free Response

1. Answer

Explanation:

Section 2: Multiple Choice

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

5. Answer

Explanation:

Section 3: True/False

1. Answer

Explanation:

2. Answer

Explanation:

3. Answer

Explanation:

4. Answer

Explanation:

