

Income - The Basics

Income - the money made

Most of us make our money from jobs or for in return for our work, but income can also be earned elsewhere, sometimes not even in the form of cold, hard cash. In this chapter, we will focus on multiple income related topics including :

- Income types
- How to chose a job, and if it is worthwhile to pursue higher education
- How investments and capital appreciation are counted towards income

How and where income can be earned

Different Types of Income

Income does not only come from a regular 9-5 job but it can also come from multiple other sources like:

1. Earned Income (9-5 job)

- Money received from working a job or providing services.
- Examples: Salaries, wages, tips, bonuses, commissions, (work+ anything work related like tips)
- Usually involves active participation, like working hourly or full-time.

2. Passive Income

- Money earned with little to no daily effort once the initial setup is done.
- Examples: Rental income, earnings from investments (dividends, interest), royalties, income from a business where you are not actively involved.
- It often requires upfront work or capital but can continue generating money over time.

3. Portfolio Income

- Income generated from investments in financial assets.
- Examples: Dividends from stocks, interest from bonds or savings accounts, capital gains from selling stocks or real estate at a profit.
- Often requires some knowledge about investing or managing assets.

4. Business Income

- Income earned by owning or running a business.
- This can be active if you manage daily operations or passive if you have partners or employees running the business.
- Includes profits from selling goods or services.

5. Unearned Income

- Income received without direct work or investment.
- Examples: Gifts, inheritances, lottery winnings, government benefits (like Social Security, unemployment benefits).
- Not usually consistent or reliable as a source of regular income.

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Which is considered passive income?

- A) Working as a cashier
- B) Earning interest from a savings account
- C) Getting paid for babysitting
- D) Selling crafts at weekend market

Fill in the blank

Income you receive from dividend, interest, and Capital gains is called _____ income

Earned Income

& common questions about finding jobs

When looking for a job, is income the only factor I should consider?

No, alongside the paid income, many more factors should be considered when looking for a job.



Flexible work hours - the ability to adjust and manage your working hours to best fit your personal



Career advancement opportunities - clear pathways for promotions and skill growth.



Positive Workspace culture - A respectful, supportive, and inclusive workplace environment.



Job security - Stability and low risk of layoff or losing your job.

Higher education, additional training and their potential benefits

People have different opportunities and willingness to pursue additional training or higher education, in exchange for future benefits, such as more money down the road

Activity

Evaluate the costs and benefits of investing in additional education or training

Directions: list three costs and three benefits of pursuing additional education or training

Costs

Benefits

How Life circumstances affect opportunity and willingness

Not everyone has the same ability or motivation to continue their education.
Life's circumstances can make it easier or harder to take the next step in education or training

Some roadblocks to higher education or training:

- **Family responsibilities** may limit available time
- **Financial resources** can affect whether someone can afford tuition
- **Location** can determine access to school or training centers
- **Employer support** (such as a sponsored training)

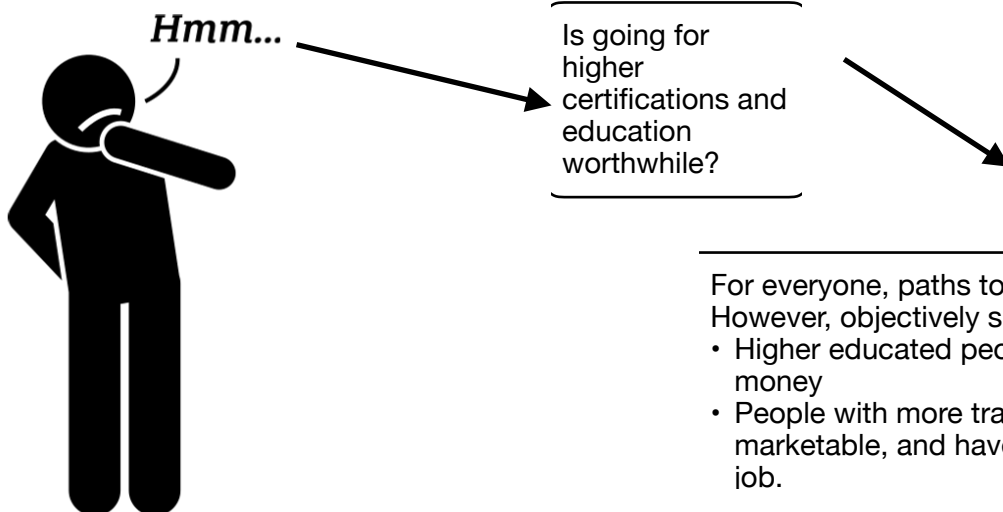
Activity

Read each situation and write how it might affect someone's ability to continue education or training

A single parent with no nearby childcare: _____

An employee whose company pays for online certifications _____

A recent high school graduate living in a city with multiple schools _____



For everyone, paths to higher income is different. However, objectively speaking:

- Higher educated people tend to earn more money
- People with more training are more easily marketable, and have an easier time finding a job.

Passive Income

& how its subsidiaries

How Capital Gains Relate to Income

How Do Capital Gains Affect Your Income?

- Capital gains add to your total income for the year
- Your total income = earned income + capital gains + any other income (like interest or dividends)
- The amount of income you have determines the tax

Example

You invest at the beginning of the year

\$10,000



At the end of the year you earn

\$15,000

And you decide to sell your investment

What's the capital gain?

Capital gain is the money earned as an investment increases in value.

In this example, the capital gains would be $\$15,000 - \$10,000 = \$5,000.00$

The additional \$5,000 could be counted towards income

Now it can be taxed like additional income

Small Business Profits

What is a business profit? A business profit is the money a business has left over after paying all of its expenses

- **Gross Revenue** - The total amount of money your business earns from selling goods or services
- **Business Expenses** - The money you spend to run your business
- **Business Profit** = Gross Revenue - Business Expenses

Profit is counted towards your total income for the year

Activity

Calculate the Gross Revenue of this small business and determine the net profit and taxable income from this small business.

Jeremy owns a bakery that costs him \$5,000 dollars to run, but at the end of the year he made upwards of \$20,000 in revenue.

- 1) Calculate the profit
- 2) Calculate the addition to his net income, and why he won't take home his profits entirely (We'll talk about this next)

Answer

- 1) _____
- 2) _____



Taxes

What are taxes?

Taxes are a portion of your income that the government collects to pay for public services and programs

Why are taxes important?

Because governments cannot simply just print money to fund their projects, they collect taxes in order to pay for government projects.

What does it mean for our income?

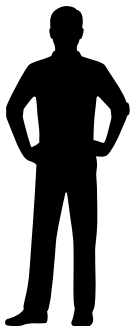
It means that there will be a difference in the amount of money that we should earn on paper and the actual amount we receive.

Common Misconception

I should not accept this raise because I will get taxed more and end up with less money.

False, if your income increases so will the money you bring home. Due to the progressive nature of America's tax system, money up to a certain threshold is taxed at a certain percentage, until the next threshold is reached.

Bob just got a raise!

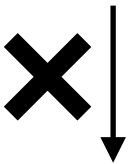


His income double from \$10,000 to \$20,000

... but now he thinks to himself, now that I am in a higher tax bracket will I actually end up with less money?

Let's take a look

Income	Tax %
\$5,000	10%
\$10,000	30%
\$15,000	35%
\$20,000	55%



Quick math may tell us that 55% of \$20,000. Would leave us with under \$10,000,

- How its actually calculated
- First \$5,000 is taxed at 10% rate
 - Second \$5,000 is taxed at 30%
 - Third \$5,000 is taxed at 35%
 - Fourth \$5,000 is taxed at 55%
- So each increment up the tax bracket is taxed separately!

Educators notes

Unit Overview: This packet provides an introduction to personal finance for high school students. It moves from defining different types of income to analyzing career choices and understating the practical impact of taxes. The materials are designed to be completed in sequence to build a complete understand of income

Target audience: High school, Grade 9-12

Learning objectives: Upon completion of this unit, students should be able to

- Identify and define the different types of income
- Evaluate non-monetary factors important when looking fir a job
- Perform a basic cost-benefit analysis of pursuing higher income
- Calculate business profit and understand the concept of capital gain
- Explain how a progressive tax system works and address the most common tax misconception

Answer keys

Page 3 - B, portfolio income

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Costs	Money Spent	Time committed	Opportunity cost
Benefits	Higher salary	Skill growth	Career advancement

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- 1) Familial limitation
- 2) Employer support
- 3) Locational limitation

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- 1) \$15,000
- 2) \$15,000 But he won't take all of it home
because of taxes