

# How to make your kids rich!

**The Goal:** Your Kids will know what it means to be financially responsible

**My Rationale:** Too many kids begin work or go to college without understanding how important it is to manage their money.

## **Learning Objectives:**

- How do you Budget Your Money? How do you explain budgeting to kids?
  - Budgeting is the key to moving your money to the right place
  - A budget is like tracking every dollar to understand where it goes
    - We are aiming to know how much money you are currently earning and how you are currently spending that money
    - Once you have figured out that money was spent in the past, it is proper to ask oneself what money will get repeatedly spent in the future (next month, next six months!)
    - By measuring these costs you can establish which ones are necessary and which ones are not.
    - Budgeting takes a lot of self-control! It takes time to master
  - Easy steps to creating the ultimate budget
    - Start with mapping out the essentials you need to purchase things like Shelter, Transportation, Food, and Utilities usually 50% of your earned income
    - Next figure out additional expenses that make your life comfortable such as haircuts, subscriptions to streaming services, or internet access. Usually, a good target is 30% of your earned income
    - Finally, you will want to figure out how much you are planning to set aside to save for either retirement or future purchases. It is a good idea to set aside money for emergencies. Typically a good target to save is 20% of your earned income.
  - Put your kids through this exercise!
    - Have them ask you how much you spend on a daily basis (Gas money, food, bills, even the money you spend on them!) Have them record this information on a spreadsheet so they can see how everything accumulates.
    - This establishes the basic sense of where your money is flowing and how much money plays a large role in your life!
- What are Taxes and Why do I pay them?
  - Taxes are one of the only things guaranteed in life. Let's break down each of the tax components
    - First, Uncle Sam uses the IRS to collect taxes. IRS stands for Internal Revenue Service. Taxes are collected year round but the big day for the IRS is April 15. That is when individual federal tax returns and payments from the previous year are due.

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- Federal Tax returns are documentation filed with the IRS, that reports revenue, expenses, and other relevant financial information. Additionally, on these returns, taxpayers calculate their liability or how much they owe to the Government. Also, they can schedule tax payments or request refunds for the overpayment of taxes.
- Four main kinds of taxes get applied to individual taxpayers
  - Taxes on Purchases:
    - Sales tax: a broad tax applied to the original cost of an item that you purchase
    - Excise Tax: “Indirect Tax” A specific tax imposed on manufacturers who produce certain items like gas or cigarettes. It will ultimately raise the price of that product.
  - Taxes on Property
    - Property taxes: Local Government imposed tax that funds the local government
      - Based on the assessed price of the home, a certain percentage charged to you
      - If you do not pay, you can lose your home!
    - Personal Ownership property tax: Nearly the same concept, except it's applied to larger items like boats or cars.
  - Taxes On Wealth or money you already have
    - Estate tax or “death tax”: If you pass away and leave belongings to your next of kin. If you are over a certain threshold of wealth that you will pass on, it can be taxed.
  - Tax on income or money you earn
    - Income Tax: A taken percentage of what you earned based on how much you earn. The government placed people into tax brackets based on their income
      - A more detailed explanation of how this work is here: [How tax brackets actually work.](#)
      - The Three Types that can be applied to you are Federal Income Tax, State Income Tax, and Local Income Tax (based on where you live)
    - FICA: A piece of your income also goes to Government funded programs like Social Security (here is how social security works: [www.massmutual.com](http://www.massmutual.com) and Medicare (here is how Medicare works: [www.hcsc.com](http://www.hcsc.com).) Mainly found on W2s (Wage and Tax Statement) or your pay stubs

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- Finally, the valuable takeaway should be that as a citizen of the United States, you should always know taxes will be applied to you in some way, shape, or form!
- How do I save for Retirement? Should I?
  - Yes! Start saving money now. Due to the magical effect of compound interest ([What is compound Interest?](#) ).
  - Certain employers will offer you retirement plans that vary based on the organization, here is a list of them and their advantages and disadvantages: <https://www.irs.gov/retirement-plans/choosing-a-retirement-plan-plan-options>
  - Many people also invest in IRA's here is a more in depth explanation on what those are: [www.fidelity.com](http://www.fidelity.com)
  - Ultimately I cannot give you a set path on saving for retirement because there are many ways to set aside money!

If your kids still don't get it or refuse to listen to you:

- Khan Academy has an entire course on Personal Finance! [www.khanacademy.org](http://www.khanacademy.org)
- So does Edspira! : <https://www.edspira.com/personal-finance-index>
- CNBC has an amazing article on the basics! [www.cnbc.com](http://www.cnbc.com)
- If you only take the advice of Warren Buffet like me, here's the guru on personal finance: [Warren Buffett On Personal Finance-Yahoo - YouTube](#)
- If you feel stressed after reading all of this, here are some [memes](#) to help alleviate it!