How Taxes Impact Spending

An employer deducts (meaning subtracts) taxes from an employee's earnings. That means that a person's paycheck will be lower than what they are actually earning. Let's look at an example. Suppose you are working 20 hours at a grocery store at a rate of $15.00 per hour. Based on the hours and hourly wage, you will be earning $300.00 (referred to as gross income) but the amount of your check will be less (referred to as net income). This is very important to keep in mind when you are creating a spending plan.

There are some jobs or services you do in which taxes are not deducted. Examples are babysitting for a friend or relative, mowing a neighbor's lawn, or washing the family's vehicle. In this instance, the amount someone says they will pay you is the actual amount.

In the following scenarios, decide if the work will be taxed. For those that ARE taxed, assume a four-week month and a tax rate of 15%. Then calculate how much each person will be able to spend at the end of the month.

1. Latisha earns $8 per hour babysitting for her niece. She works 20 hours a month.
   Taxable? ________
   How much spending money at the end of the month?
   ____

2. Nguyen earns $12.50 per hour at a fast food diner. He works 12 hours per week.
   Taxable? ________
   How much spending money at the end of the month?
   ____

3. Philippe earns $10 per hour cleaning the swimming pools for his three neighbors. He works 2 hours for each neighbor each week.
   Taxable? ________
   How much spending money at the end of the month?
   ____

4. Eric earns $20 doing landscape maintenance for a major landscaping service. He works 25 hours per week.
   Taxable? ________
   How much spending money at the end of the month?
   ____

5. Greta earns $11 per hour helping her mom in the family restaurant. She goes there after school and generally works 12 hours per week.

   Taxable? ________
   How much spending money at the end of the month?
   ____

6. Look again at the work of Nguyen and Greta. What can you say about their jobs and tax situations?
   ____