



HEALTHY, WEALTHY, & WISE

Learning to improve financial health, increase wealth, and make wise consumer choices

If you want to be financially healthy, wealthy, and wise, it is important to learn to balance your income and expenses by spending less than you earn. In this issue, we will look at income and other resources that may be available to meet your needs.

Although earned income from work is what we usually think of first, there are other ways of finding money to pay for expenses. If you completed a Net Worth Statement, it is a good place to look for assets that might be used to increase or replace income. A household inventory can help, too. What are some of the assets available to you to provide income if you lost your job for a short time or had a large unexpected expense?

List Income

On the Income Worksheet in this issue, list all sources of family income. **Gross income** is the amount earned before deductions are taken out, such as taxes and insurance. **Net income**, or **take-home pay**, is the actual amount of your pay-check (after deductions).

If you are paid weekly or every two weeks, add checks to get a monthly total. Add months to get a yearly total. You can figure monthly income as 4.33 times the weekly amount. Another option is to estimate low by using only four weeks. This leaves four weekly or two biweekly checks each year as bonuses.

If your income is not the same every month, total up income and commissions for last year (or what you expect this year if you know it will be different). Divide by 12 to get an average monthly income. Families with irregular income must be careful to save in months when income is higher to use later when income is reduced.

Be sure to include child support, alimony, retirement, Social Security, public assistance, disability income, insurance, or any other source of regular, dependable income. Include interest, dividends, and gifts you can count on, too.

To maintain your financial health and grow wealth, your income must be greater than your expenses. If you are having trouble making ends meet, you may want to explore ways to increase income, such as special benefits or other community resources, personal assets, and tax credits.

Finding Extra Income

Seek special benefits or assistance

If you are going through an especially tough time, do not be embarrassed to seek assistance. After you have given to charities and paid taxes for many years, it may be your turn to benefit.

For example, when Hurricane Katrina hit the Gulf Coast in 2005, many lost their jobs and homes. Some lost only power and the foods that spoiled as a result. Unemployment insurance, food stamps, Red Cross, Salvation Army, FEMA, and



other resources were available to these victims who may have never before used benefits.

Sell personal property or assets

What do you own that could be used or sold to find income? In a crisis, you might use savings accounts or investments to replace income. Families that have an emergency savings account to cover living expenses for at least three months can safely weather many financial storms.

Look for unused or valuable items you might sell. Do you have antiques or jewelry with which you could part? What about extra automobiles? Downsizing to a smaller home or carpooling to work may be options to consider. Sometimes difficult situations call for extreme measures!

Using funds in retirement accounts should be the last resort for several reasons. First, you may lose money by paying a tax penalty if you are not yet age 59½. You may also be taxed at a higher rate when the extra funds are added to your income. Another reason to avoid using your retirement account is that it can stretch a current crisis over an entire lifetime. What will you do when those funds are missing in your later years?

Use time, talents, and skills

What can you do to save or make money when income is scarce? Adopt a do-it-yourself policy. Are there things you can do for yourself or for others? Here are some ideas for making your time and talents pay. Can you do handyman repairs or yard work, clean homes or offices, grow vegetables or flowers, bake, babysit, paint, sing, play music, or share your home with someone who can pay rent? Seek resources for starting your own business. Grants or loans may be available to new small businesses. List other ways you can make extra money with little or no extra investment here:

Examine your paycheck and statements

Are unnecessary deductions being taken out of your paycheck? Examine your pay stub carefully, looking for deductions that might be reduced. How much is being withheld for taxes? If you get a big refund every year, you may be able to change your tax deductions to get a little more in every paycheck instead.

Check monthly bank statements and bills to see if you are paying for extras you might eliminate. For example, you might not need credit life insurance or credit card coverage if you have an emergency savings account. If you need insurance, it is sometimes less expensive to add to a life insurance policy you already have than to purchase many small, separate accounts.

Tax Credits for Low-Income Workers

How would you like a 40 percent raise in income? Tax credits designed to put more money in the pockets of working families can increase income by hundreds to thousands of dollars. Be sure to claim all of the tax credits you have earned by learning about these three tax credits: the Earned Income Tax Credit, the Child Tax Credit, and the Child and Dependent Care Credit.



The Earned Income Tax Credit (EITC) is a special tax benefit for working people who earn low or moderate incomes. It has several important purposes: to reduce the tax burden on workers, to supplement wages, and to provide a work incentive. The Earned Income Tax Credit may be especially helpful to those who can find work only in part-time, temporary, or low-wage jobs.

For example, in 2012, workers raising three children in their home and who earn less than \$45,060 may receive an Earned Income Tax Credit of \$5,891. Even workers not raising children who earn less than \$14,000 and are aged 25 to 64 may be eligible to receive an EITC up to \$475.

The EITC advance payment option allows some workers who are raising children to get part of the credit in their paychecks throughout the year. Since they get only part, they still get some of the credit when they file their income tax returns. Your employer can give you the forms and specific information about how to get this extra income in your paychecks.

Many families that earned more than \$3,000 in 2012 may also qualify for the Child Tax Credit—up to \$1,000 for each child under age 17. Each year, income limitations and credit amounts change somewhat. Investigate eligibility requirements carefully to see if you qualify for a Child Tax Credit and others discussed here.

A third credit, the Child and Dependent Care Credit, helps families pay for child or adult dependent care they need in order to work. Families caring for foster children, grandchildren, or other relatives may not know they are eligible for these credits. Recent IRS rule changes make it easier to claim these credits for foster children and three-generation households.

More About Taxes

You must file a federal tax return to get a credit, even if you owe no taxes. Look for Volunteer Income Tax Assistance (VITA) sites in your area where you may be able to have your tax return prepared by volunteers at no cost to you. If you do not qualify for free tax preparation services, look for low-cost options in your area.

If you do not already have an account at a bank or credit union, **opening a savings account can save both money and time**. If you have an account, your tax credit or refund can be deposited directly in just a few days. Waiting for a refund check through the mail can take a long time.

Getting a rapid refund from an expensive tax preparer can be a costly option. Preparing your return can cost \$80 or more. Getting your credit or refund immediately involves taking out a “refund anticipation loan” that can add more high costs (interest, finance charges, or other fees). To get cash, you may also pay a check-cashing fee. Do you want someone else to take a large portion of a tax credit or refund that belongs to you? It is your choice.

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Make Tax Time Pay! Earned Income Credit Kit
Center on Budget and Policy Priorities
Washington, D.C.
<http://www.cbpp.org>

Bouncing Back When Your Income Drops
Natalie Ferry, Penn State Cooperative Extension and Outreach
<http://pubs.cas.psu.edu/FreePubs/pdfs/ui342.pdf>

Identify Income

Worksheet

	Week 1	Week 2	Week 3	Week 4	Week 5	Monthly total	Future plan
Paycheck No. 1							
Paycheck No. 2							
Paycheck No. 3							
Paycheck No. 4							
Tips							
Commission							
Interest							
Dividends							
Gifts							
Food stamps							
Social Security							
Retirement benefits							
Child support							
Alimony							
Public assistance							
Veterans' benefits							
Tax credits							
Other							
Totals							

IN THE NEXT ISSUE: *Budgeting*

Prepared by Dr. Bobbie Shaffett, Extension Professor, Family Resource Management.

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