



# **MONEY MATTERS**

HOW MUCH MONEY  
DO YOU NEED TO LIVE?

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# BUILDING A BASIC BUDGET

Where do you want to live after you graduate? How much does it cost to live there? Estimate the cost of living in an area, and then calculate how much money you need to satisfy your budget.

## CALCULATE YOUR EXPENSES

1. **Where do you want to live? Is the area expensive?** Use a cost-of-living calculator to find out. I like the [cost-of-living calculator from NerdWallet](#) and [Numbeo for cities outside the US](#).
2. **Use this data to estimate how much money you will need** each month to live: rent, groceries, transportation, phone, utilities (like water, gas, and electricity), and loan repayments.
3. **Include your regular monthly expenses** such as a subscription to Netflix or take-out. Review the last three months of your banking statements to see where you spend your money each month.
4. **If you plan to rent an apartment**, you will likely need to pay the equivalent of three months' rent when you sign a lease on an apartment (the first and last month of rent, plus a security deposit).
  - a. Check your state for renter's rights - in Massachusetts, you are entitled to interest payments from your security deposit, [click here for more information](#).
  - b. Also consider moving costs such as renting a van, buying new furniture, and other necessities for your new apartment.

## CALCULATE YOUR INCOME

1. **Estimate how much money you will make at the jobs that interest you.** Research salary data on [Salary.com](#), [BLS.gov/ooh](#), [Payscale.com](#), [Indeed.com/career/salaries](#), and [Comparably.com](#).
  - a. [Vault.com](#) has an expansive list of unique jobs and salary information. Click on "Careers" then the "[Featured Professions menu](#)" and switch to "All Professions" to see the list.
2. **Take the estimated income and use a take-home pay calculator.** This tells you how much you actually take home after taxes ( ~ 25% of your paycheck goes to taxes).
  - a. Use the take-home pay calculator from [SmartAsset](#) or [Calculator.net](#).
  - b. As a freelancer, expect to pay around 30% of your income in taxes (see page 3).
3. **Use take-home pay (your income after taxes) to create your budget.** For example, if your estimated expenses say you need \$2,000/month to cover your bills, then you actually need to make **~\$2,700/month to take home ~\$2,000/month after taxes**.

## COMPARE YOUR EXPENSES AND INCOME

1. **Compare your estimated take-home pay to your estimated expenses.** Are you making enough money to cover your living expenses in the area(s) where you want to live? Can you cover rent, groceries, transportation, utilities, and loan repayments (like student loans and credit cards)?
2. Hopefully, you are in a position to **pay your bills, pay down debt, put money in savings** (even saving 1% of your income/month makes a difference), and have some money left over for monthly subscriptions and fun activities.
3. **Aim for a 50/30/20 budget:** 50% of your budget is spent on "needs" like rent and groceries. 30% of your budget is spent on "wants" - the fun things like monthly subscriptions, travel, and going out to eat. Then 20% of your budget is spent on "savings" - paying off high-interest debt and saving up an emergency fund.
  - a. If your "needs" exceed 50% of your budget, pull it out of the "wants" category.
  - b. Do not take money from the "savings" category - it's important.
  - c. [Use the 50/30/20 budget from NerdWallet](#) to calculate your 50/30/20 budget.

# DO NOT RELY ON CREDIT CARDS

Credit cards are important for building credit. You will need a good credit score to rent an apartment, buy a car, and take out loans. But be careful - interest rate and late payments can add up quickly.

**Use your credit card only for small purchases that you can pay off IN FULL ON TIME each month.** This is how you build good credit without paying extra interest fees or late fees.

## CREDIT SCORE

Your credit score is one of the most important measures of your financial health. The better your score, the easier it will be to get loans, housing, and lower interest rates when you borrow money.

In the US, we have three credit bureaus (Experian, Equifax, and TransUnion). Credit bureaus compile your financial information and calculate your credit score (we use the FICO score in most lending decisions here in the U.S.).

**Your credit score ranges from 300-850:**

**Very poor:** 300-579; **Fair:** 580-669; **Good:** 670-739; **Very good:** 740-799; **Exceptional:** 800-850.

Get your credit report from your bank and you're entitled to a free copy of your credit reports every 12 months from each of the three nationwide credit bureaus by visiting [www.annualcreditreport.com](http://www.annualcreditreport.com).

**Things that negatively affect your credit score:**

Missing payments; Maxing out credit cards; Applying for a lot of loans (credit card, auto, home) in a short period of time.

**How to improve your credit score:**

Pay your bills on time ; <30% Credit Utilization Rate (If your credit limit is \$1,000, you don't charge more than \$300 every month); Don't apply for a lot of loans at once.

**International credit scores:** Research whether the country of interest has its own credit bureau(s) similar to the three we have in the U.S.

## CREDIT CARD INTEREST RATES

Credit card companies make money by charging you interest. Most credit cards have an 18-25% interest rate, it depends on your credit score. (For reference, 18-25% is awful, it's robbery.)

If you carry a balance on your credit card, *meaning you owe money and don't pay it back at the end of the month*, the credit card company will charge you interest on the money you owe. The amount they charge depends on your interest rate and the amount of money you owe.

**For example**, if you have a 25% interest rate, your daily interest rate is \$.069. That means that you pay \$.069 in interest every day for every dollar you owe.

- If you owe \$100 to the credit card company, you'd pay about 7¢/day, or ~\$2.10 in interest for the month.
  - If you owe \$500, you'd pay about 35¢/day (approximately \$10.50/month) in interest.
  - If you owe \$1,000, you'd pay about 70¢/day (approximately \$21/month) in interest.
- Check your bank statement or use [NerdWallet's credit card interest calculator](#).

Interest payments add up quickly! If you only pay the minimum balance, the money goes to the interest first, so you're not lowering the amount you owe. You're just paying off the interest.

For example, if you owe the bank \$1,000 and pay them \$100, the first \$21 goes to the bank to pay their interest charge, and the remainder (\$79) goes to your balance.

## CREDIT CARD STATEMENTS

Read your credit card statement closely to understand when you will be charged interest.

**Minimum Payment** = The minimum you have to pay to avoid late fees. YOU **ARE CHARGED INTEREST** if you only pay the Minimum Payment.

**Statement Balance** = Your charges for the past month. YOU ARE **NOT CHARGED INTEREST** if you pay the Statement Balance.

**Current Balance** = Statement Balance + any activity since the last billing cycle. If possible, pay off the Current Balance because it's best for your credit score. YOU ARE **NOT CHARGED INTEREST** if you pay the Current Balance.

If you can pay off the current balance, it positively affects your credit utilization rate. This means you're not maxing out your credit cards, which improves your credit score.

## TAXES FOR FREELANCERS

We pay federal and state taxes. **When you are an employee**, you get a paycheck with these taxes already deducted. What you receive in your paycheck is your take-home pay, all taxes already paid for.

**When you are self-employed or freelancing**, you are known as an independent contractor. In this case, you are the employer *and* the employee, and thus responsible for paying your own taxes as the employer *and* employee. [Check out the self-employed tax info page from the IRS](#) for more information.

### HOW MUCH TAX TO PAY

When you are the employer *and* the employee, you are double-taxed. You pay an income tax, just like an employee would, but you also pay a self-employment tax as the employer. This totals around 30% in taxes. **This means that for every \$1 you make, 30¢ goes to taxes, and you keep 70¢ as profit.**

**PRO TIP:** Open two bank accounts for your freelancing business: one for profit, and one for taxes. Every time you get paid, put 70% in the "profit" account and 30% in the "taxes" account. That way, you have the money in the bank when it's time to file taxes and pay the government.

Depending on your tax bracket and your deductions, you will likely end up owing less than 30% in taxes, but it's better to save 30% and hope you owe less than that.

### WHEN TO FILE TAXES

If you pay less than \$1,000/year in taxes (you likely make *less* than ~\$3,500/year as a freelancer), then you can file by April 15 (tax day) for the whole year.

Once you owe more than \$1,000/year in taxes (you likely make *more* than ~\$3,500/year as a freelancer), the IRS wants you to pay estimated taxes four times per year (every quarter):

- January 1 - March 31: Pay by April 15
- April 1 - May 31: Pay by June 15
- June 1 - August 31: Pay by September 15
- September 1 - December 31: Pay by January 15

How much money should you send each quarter? That depends on your income & deductions. Aim for a total of 25% ... Send 20% to the IRS and 5% to your state's tax collector. (if you overpay, you are refunded).

For example, if you sell \$5,000 worth of art in a quarter, send \$1,000 to the federal government and \$250 to your state when the next quarterly estimated tax payment is due.

To see the current federal tax rate and filing instructions, check out form 1040 at [www.irs.gov](http://www.irs.gov). For my friends in Massachusetts, you'll also want form 1-ES "Massachusetts Estimated Income Tax" from [www.mass.gov](http://www.mass.gov). (Every state has a different form.)

## TAX PAPERWORK FOR FREELANCERS

Freelancers and independent contractors are considered “Sole Proprietors” by the IRS. That is the status under which you file your taxes.

- **W9:** If someone pays you more than \$600 and they plan on reporting this to the IRS, they will ask you to complete a W9. You fill in your name, address, and social security number. The person paying you uses this information to create tax forms.
- **1099:** The person who paid you more than \$600 will complete Form 1099 at the end of the year and send a copy to the IRS and a copy to you. You will use Form 1099 when you file your taxes.
- **1040 ES Estimated Tax for Individuals:** This is the form you will use to calculate and pay your estimated taxes to the IRS. You will report your income and expenses on this form.
- **Schedule C (Form 1040), Profit or Loss from Business (Sole Proprietorship):** This is the form you use to deduct the expenses for your business. Deductions might include expenses for your website, office supplies, materials, and studio space. Read the document to confirm deduction eligibility or contact a tax professional, who can help you find maximum deductions. You want deductions! Then you pay less taxes.

**For example:** Let’s say you make \$4,000 as a freelancer, that is your income. But your website, office supplies, and materials cost \$1,000. You can deduct those expenses, meaning your income is now \$3,000. Thus, you would pay taxes on \$3,000 instead of \$4,000. (That’s good!)