Money Matters for Self-Employment

Understanding Your Income

ABC LifeLiteracyCanada

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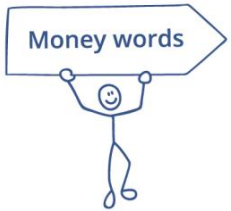
Welcome to *Money Matters*

What will you learn?

In today's workshop, you'll think about:

- What income is
- Sources of income
- How to predict your income

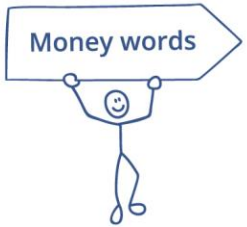


Income is the money you get from a job, benefits, or somewhere else.

What is income?

- Income is the money you get from a job, benefits, or other sources.
- Some people know what their income will be each week or month. This is called a **consistent income**.
- Some people can't predict their income. They don't always know when they'll receive money or how much they'll make each week or month. This is called an **inconsistent income**.

What is income?



A **consistent income** is a regular and predictable source of money coming in.

An **employer** is a person, company, or organization that pays people to work for them.

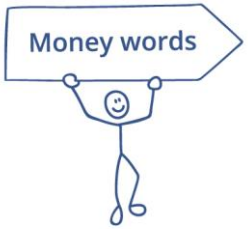
An **inconsistent income** is when the money you earn changes every month.

Reasons for having an inconsistent income

Here are some reasons someone might have an inconsistent income.

- They are **self-employed.**
- Their job has busy seasons and slow or off-seasons.
- They earn **tips** or **commissions**.
- They work part time or on a casual basis and don't always work the same shifts.
- They sometimes get one-time payments, like government benefits or financial support from loved ones.

Reasons for having an inconsistent income



When you're **self-employed**, you work for yourself. You are your own boss.

A **tip** is extra money that a customer gives you for providing good service.

A **commission** is money you earn every time you sell something.

Think about it

- Is your income consistent or inconsistent? Has it always been that way or has it changed recently?

Why is it important to understand your income?

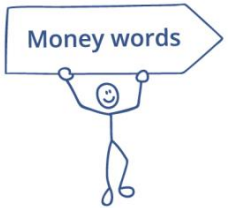
Understanding your income is the first step towards learning how to take charge of your money and deciding what to do with it.

Knowing where your money comes from can also help you manage it during times of change, like if you're thinking about starting your own business.

Why is it important to understand your income?

When you understand your income, you can:

- Predict if you'll have enough money to cover your **expenses**
- Start saving or put more money towards your savings
- Start making a plan for your money



An **expense** is something you have to pay for, like rent or a cell phone bill.

Meet Devon

Devon has a job mowing lawns and building garden beds. He also drives a snowplow whenever there's a big storm in the winter.

Devon has also been thinking about starting his own landscaping business. He's taking courses at the community college to learn more about running a business.

Devon usually makes enough money to cover his expenses, but he isn't always sure how much income he'll have each month. He has savings goals, and he's feeling a bit discouraged about when he'll be able to meet them.

Let’s talk about it

- Would you say Devon’s income is consistent or inconsistent? Why?
- Why do you think Devon has trouble predicting his income each month?
- Do you relate to any part of how Devon is feeling?

Financial stress

It can feel overwhelming if you're not sure how much money you have to spend or what you need to spend it on. And it can be stressful not to know if you'll have enough money each month to cover your expenses.

When you take small, consistent steps to understand your income, you're starting to take control of your finances. Building these skills can help reduce your stress over time.

Self-assessment

Think about your life right now. How do you feel about your income?

- I often feel stressed because I'm not sure how much income I'll make.
- I sometimes feel stressed about my income, and I'd like to feel more confident.
- I don't usually feel stressed about my income, and I've started to make a plan for my money.
- None of the above.

Sources of income

The first step in understanding your income is knowing where it comes from.

Some common sources include:

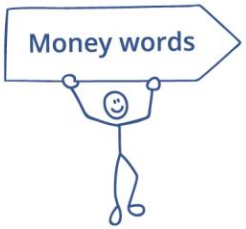
- **Getting income as an employee**
- **Getting income from self-employment**
- **Getting income from other sources**

Getting income as an employee

A common source of income is a job, where you work as an **employee.**

If you earn income as an employee, it's important to understand if you're paid a **salary** or a **wage**. It helps you know how much money you'll receive each time you're paid.

Getting income as an employee



An **employee** is paid by an employer to complete work.

A **salary** is a fixed amount of money an employer pays an employee each year.

A **wage** is an hourly amount of money an employer pays an employee.

What's the difference between a salary and a wage?

A **salary** is a fixed amount of money an employee gets paid in a year.

A **wage** is based on an hourly rate. An employee gets paid the same amount for each hour they work.

Think about it

How does knowing if you're paid a salary or a wage help you make a plan for your money?

Depending on your job, you might earn some of your income as an employee from tips. Tips are usually added to an employee's pay on top of their wage or salary.

How much money you actually make as an employee

If you work 25 hours a week and your wage is $20 an hour, you'll earn $500 that week. This is called your **gross income**. But you won't actually be paid the full $500.

When you earn income as an employee, **deductions** are taken off your paycheque. Deductions include:

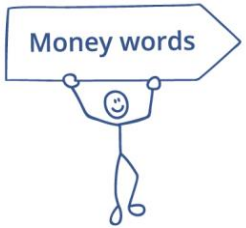
- Taxes
- Canada Pension Plan (CPP)
- Employment Insurance (EI)

How much money you actually make as an employee

It doesn’t matter if you’re paid a wage or a salary as an employee. Everyone has deductions taken off their pay.

The money you receive after deductions is called your **net income** or “take-home pay.” This is the money you actually receive in your bank account.

How much money you actually make as an employee



Gross income is the total amount of money you earn before any deductions.

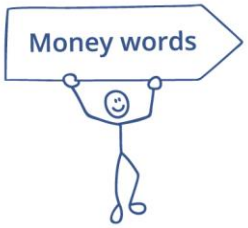
Deductions are the money taken out of your paycheque.

Net income is how much money you actually get after deductions.

Getting income from self-employment

When you're self-employed, you work for yourself. You can earn self-employment income in a few different ways.

If you have a **side job**, you might get paid for each service you provide.

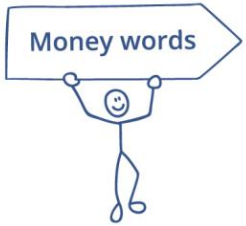


A **side job** is work you do on top of your main job.

Getting income from self-employment

If you're a **freelancer**, you might sign a contract and get paid when you finish a project.

And if you run your own **business**, you might pay yourself a salary from the money you earn selling a product or service.



A **freelancer** is a self-employed person who signs a contract to do a job or to provide a service for a client.

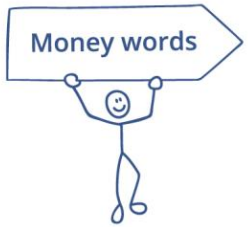
A **business** is an organization that makes money by selling products or services.

How much money you actually make when you're self-employed

When you're self-employed, you still need to pay for taxes, CPP, and EI.

Instead of having an employer take deductions out of your paycheque, you pay these costs yourself when you file your **tax return**. The amount you pay is based on the amount of income you earn.

How much money you actually make when you're self-employed



A **tax return** is a form you have to complete each year that shows if you owe tax on the income you've earned in a given year.

It's important to set aside part of your self-employment income to pay for these costs. One suggestion is to set aside 30% of each payment you get from clients.

Let’s talk about it

What do you think are some of the challenges of keeping track of your income when you’re self-employed?

What tips do you have to keep track of your income when you’re self-employed?

Getting income from other sources

Examples of other sources of income include:

- Government benefits (such as Canada Pension Plan, Canada Child Benefit, Canada Housing Benefit, and many more)
- Interest from savings or investments
- Gifts or allowances
- Child or spousal support
- Scholarships

Getting income from other sources

Steps for identifying your sources of income:

1. Read through your bank statements from the last year.
2. Look for all the times that money was deposited into your account.
3. Write down where the money came from for each deposit.

Think or write about it

Write down any sources of income that apply to you.

Sources of income

- Wages or salary from working as an employee
- Money you make from being self-employed
- Government benefits
- Worker's compensation
- Employment Insurance (EI)
- Child or spousal support
- Tax refund
- Old Age Security (OAS)
- Inheritance
- Gifts or allowances
- Interest from a savings account or investments
- Anything else?

Meet Niko

Niko is a server at a restaurant. A lot of his income comes from tips. When it's busy, he makes lots of tips. But sometimes it can be very quiet, and he doesn't make as much money.

Some months Niko has more than enough money to cover his bills, but sometimes he has trouble paying for everything.

He's learning how to plan for his money so that he feels less stress when he doesn't earn as much. He also wants to understand if he needs to look for another source of income.

Think or write about it

- Would you describe Niko's income as consistent or inconsistent? Why?
- What do you think are Niko's sources of income?
- What do you think Niko could do to feel less stress about managing his money?

Predicting your income

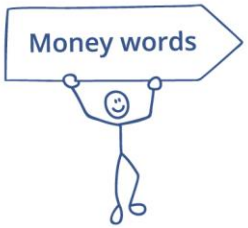
Understanding your income is important because you know how much money you have to spend or put towards savings. When you have a consistent income, you can usually predict how much money you'll make each month.

When you're self-employed or have an inconsistent income you might not always know exactly how much money you'll make. Learning to predict how much you'll earn can take some of the stress out of managing your finances.

Minimum income

One way of predicting how much money you'll make is to figure out your minimum income. Your minimum income is the lowest amount of money you earned or received in a month during the last year.

Understanding your minimum income can give you a good idea of the smallest amount of money you'll have to cover your expenses.



Your **minimum income** is the lowest amount of money you earned or received in a month.

How to figure out your minimum income

To figure out your minimum income, make a list of your sources of income. Then write down how much you received every month of the last year from each source. You can look at things like your bank account history, bank statements, or pay stubs from work.

How to figure out your minimum income

Consider all types of income from different sources, including:

- Paycheques from a job
- Tips
- Cash you earn from selling a product or service
- Government benefits (child benefit, GST/HST credit, etc.)
- Any other kind of income you have

Add up your total income for each month. Then find the month where you earned the lowest amount of income. This is your minimum income.

How to figure out your minimum income

If you earn income as an employee, make sure you write down your net income for each month. This is the actual amount of money you receive in your bank account after deductions.

Money math: Devon's additional income

Devon wrote down his monthly income for the last year in this table. Then he added up the amounts for each month to get a monthly total.

Month	Gardening Income	Snowplow Income	Total
January	$0	$2,100	$2,100
February	$200	$2,500	$2,700
March	$2,670	$0	$2,670
April	$2,800	$0	$2,800
May	$2,950	$0	$2,950
June	$3,150	$0	$3,150
July	$3,200	$0	$3,200
August	$3,000	$0	$3,000
September	$2,900	$0	$2,900
October	$2,650	$0	$2,650
November	$2,600	$0	$2,600
December	$300	$2,200	$2,500

Money math: Devon's additional income

Devon wants to find his minimum income so he can plan how much money to spend or save each month. His minimum income is the month when he earned the least amount of money.

Money math: Devon's additional income

What month did Devon earn the least amount of money?

What is Devon's minimum income?

Month	Gardening Income	Snowplow Income	Total
January	$0	$2,100	$2,100
February	$200	$2,500	$2,700
March	$2,670	$0	$2,670
April	$2,800	$0	$2,800
May	$2,950	$0	$2,950
June	$3,150	$0	$3,150
July	$3,200	$0	$3,200
August	$3,000	$0	$3,000
September	$2,900	$0	$2,900
October	$2,650	$0	$2,650
November	$2,600	$0	$2,600
December	$300	$2,200	$2,500

Additional income

Figuring out your sources of income and your minimum income can give you a pretty good idea of how much money you have to spend. And sometimes, you'll make more than your minimum income.

Additional income

Here are some reasons it's helpful to know when you might have additional income.

- You can use this income to help pay for unexpected expenses.
- You can put this money towards a savings goal.
- You can plan to pay for bigger expenses.

Additional income

To predict when you might have additional income, start by looking back at your income over the past year. If you subtract your minimum income from your total income each month, you'll see when you earned additional income.

Understanding when you earned additional income last year can help you predict when you might earn it in the future.

Money math: Devon's additional income

Subtract Devon's minimum income from the income he earned each month to get his additional income.

Income – Minimum income = Additional income

Month	Income	Minimum Income	Additional income
January	$2,100	$2,100	$0
February	$2,700	$2,100	$600
March	$2,670	$2,100	$570

Money math: Devon's additional income

Month	Income	Minimum Income	Additional income
January	$2,100	$2,100	$0
February	$2,700	$2,100	$600
March	$2,670	$2,100	$570
April	$2,800	$2,100	
May	$2,950	$2,100	
June	$3,150	$2,100	
July	$3,200	$2,100	
August	$3,000	$2,100	
September	$2,900	$2,100	
October	$2,650	$2,100	
November	$2,600	$2,100	
December	$2,500	$2,100	

Money math: Devon's additional income

Answers

Month	Income	Minimum Income	Additional income
January	$2,100	$2,100	$0
February	$2,700	$2,100	$600
March	$2,670	$2,100	$570
April	$2,800	$2,100	$700
May	$2,950	$2,100	$850
June	$3,150	$2,100	$1,050
July	$3,200	$2,100	$1,100
August	$3,000	$2,100	$900
September	$2,900	$2,100	$800
October	$2,650	$2,100	$550
November	$2,600	$2,100	$500
December	$2,500	$2,100	$400

Think about it

- Are there any months or seasons when Devon earned a lot more than his minimum income?
- How can Devon use what he learned about his additional income to help plan for his money?

What's next?

When you understand your income, you can:

- identify your sources of income
- figure out when you'll receive money
- predict the minimum amount of money you'll have to spend and save

Understanding your expenses

To understand your expenses, you'll need to think about:

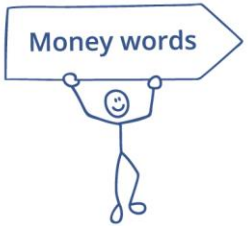
- the costs you have to pay each month
- the costs that you have to pay every once in a while
- expenses that might pop up when you don't expect them

Being able to compare your income and expenses will help you make a plan for your money.

Congratulations

You've completed the Understanding Your Income workshop. You've taken an important step in learning about where your money comes from.

For the last activity, we hope you will make a **pledge**. The pledge can be personal or you can share it with others.



A **pledge** is a serious promise to yourself or to others.

My pledge

I pledge to learn more about my income by:

My action plan

What do I need to do first?

Who will support me?

How will I overcome setbacks and obstacles?

Thank you for participating in *Money Matters*!

ABC LifeLiteracyCanada

Money Matters