

Planning for Summer Financial Success

2009

**Georgetown University
Law Center
Financial Aid Office**

Financial success does not just happen, it requires planning.

For many students their summer earnings represent a significant boost to their income. For others, a volunteer position or internship may not alter their current student lifestyle. The resources included in this packet will help you successfully plan your summer finances so that when you return to school, you will not be burdened by your summer decisions.

Step One - Determine Your Resources

Planning for the effect of taxes is critical in determining your available summer income. Your take home pay is reduced by the following taxes:

- Federal
- State
- City
- Medicare
- Social Security

Summer-only employees need to pay special attention to the bottom line!

Your employer will generally withhold taxes based on your weekly salary **projected as an annual number**. For example, with a \$3,078 a week summer job, your withholding will be based on a \$160,000 annual income. **As a result, your federal and state tax withheld by your employer will be much larger than it needs to satisfy your tax due.**

An example of this is shown below. This example is based on a single associate with no dependents.

	Summer Associate	First Year Associate
Weekly Salary	\$3,076 (12 weeks)	\$3,076
Total Earnings	\$36,912	\$160,000
Estimated Federal Tax	\$3,600	\$36,400
Amount required to be withheld each week to meet estimated federal tax	\$300	\$700
Actual Amount Withheld	\$700	\$700
Amount Over-Withheld per week	\$400	N/A
Total Amount Over-Withheld	\$4,800	N/A

As you can see, the taxes over-withheld can make a big difference to your weekly income!

Based on the example above, summer associates will have an approximate weekly take home pay of:

<u>City</u>	<u>If Over-Withheld</u>	<u>If Corrected*</u>
New York City	\$1804	\$2219
Washington DC	\$1892	\$2307
Maryland and Virginia Suburbs	\$1958	\$2372

If you do not correct the withholding, it results in a federal tax refund of approximately \$6,800 (including the \$2,000 Lifetime Learning Tax Credit). Why would you give this interest free loan to Uncle Sam? Go to Step Two to find out how you can eliminate over-withholding and what you should do with that money!

**The "corrected" numbers above do not take the Lifetime Learning Tax Credit (LLTC) or other deductions into account. For a summer associate, the estimated federal tax may be decreased by an additional \$2,000 with the LLTC.*

Step Two - See if You can Keep Your Own Money

If you feel that you can trust yourself with extra money, the best plan would be to put the over withheld federal tax money into an interest bearing savings account. You will then use this money to reduce the amount you need to borrow for the upcoming school year or to pay off any credit card balances that you have to eliminate that high-cost debt.

Pay attention to Box 5 on your W-4 when completing your employment paperwork!

Each new employee before starting work must complete an IRS form W-4 that the employer will use to determine the federal tax withheld per paycheck. **By increasing the number of allowances claimed in Box 5, below, a taxpayer can reduce the amount withheld.**

Form W-4		Employee's Withholding Allowance Certificate		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		2008
1	Type or print your first name and middle initial.	Last name	2	Your social security number
Home address (number and street or rural route)			3	<input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate box. Note: If married, but legally separated, or spouse is a nonresident alien, check the <input type="checkbox"/> box.
City or town, state, and ZIP code			4	If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. <input type="checkbox"/>
5	Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)			5
6	Additional amount, if any, you want withheld from each paycheck			6 \$
7	I claim exemption from withholding for 2008, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here			7
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (Form is not valid unless you sign it.) ▶				
8			Date ▶	9
Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)			9	Office code (optional)
			10	Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2008)

Determine the number of allowances to claim in Box 5.

H&R Block provides a web-based "Paycheck Withholding" calculator at: www.hrblock.com/taxes/tax_calculators. This calculator uses the data that you provide to make an estimate of your 2009 estimated taxes and allocates that number over the number of paychecks that you plan to receive. By calculating the withholding in this manner, your final withholding will be much closer to your actual federal tax at the end of the year.

For example, for a Law Center summer associate earning \$3,076 per week who is single the calculator determines a result of 10 for Box 5. **This does not mean that you should automatically place 10 in your Box 5! First, ask if the firm can calculate tax withholding using on the part-year employment method.** If not, you should find out if your firm pays weekly or bi-weekly then complete the easy to follow on-line calculator. Ten is the maximum result for the calculator and even with that; the student will receive a refund in excess of \$6000.

Please note that this calculator only figures your federal tax withholding.

Your state taxes will not be adjusted based on the W-4. Most states have an equivalent form that new employees complete during the hiring process. Based on the example used above, in the District, the difference in withholding based on the Summer Associate vs. First Year Associate is less than \$87 per week. You may wish to leave the state tax "as-is" and use the refund you will likely receive from the state to give you a little financial boost.

Step Three - Make Your Plan

Now that you know your numbers, you can make your plan for success!

Do Some Quick Arithmetic

Create a summer budget:

- Determine how taxes reduce your gross pay to get your net weekly pay
- Then create your weekly and monthly spending plan
- Finally decide your summer savings goal, which is how much you want to set aside for the upcoming year

Plan to Save From the Outset

- Aim to save a percentage of your net pay and determine how much to save from each paycheck to meet your summer savings goal
- Start saving from the first paycheck. Most employers allow you to deposit your pay into multiple accounts. Have your savings portion automatically deposited into your savings account
- Visit www.bankrate.com for a listing of online banks with free savings accounts, competitive interest rates and no minimum balance requirements

Find Affordable Housing

- If you relocate for the summer, start searching now to find a reasonable rental
- Sub-lease your own housing in DC rather than paying rents to two landlords
- Use free online resources to find and/or sub-lease housing such as:
www.craigslist.com
www.NALPexchange.org
www.50states.com/news/ (over 3300 newspaper links)

Do Not Overspend During Spring Term - Keep the Credit Cards on Ice

- Resist the urge to overspend during spring term or over spring break in anticipation of your summer earnings - don't go into the summer with a deficit
- By avoiding overspending during the spring term, you will not be indentured to your credit card company this summer

Techniques for savings: Set up auto deposit for your pay. Establish two accounts, one for living expenses and one for your target summer savings and have the appropriate amount deposited to each. **If you don't have the option of auto deposit, put every other paycheck into an "inaccessible" (no ATM card) bank account** and use the other check to meet living expenses. When that paycheck is spent, (or before) stop spending until you receive the next paycheck that is intended for living expenses. **Save from the outset to accomplish your goal and make an effort to reduce any outstanding balance on your credit cards.**

Law Center Grant Recipients: *Students receiving Law Center Grant earning income during the summer will receive a minimum income protection of \$14,500 for the first eight weeks of employment and an additional \$1,250 for each week worked thereafter. 65% of the amount remaining after the income protection is your Student Summer Earnings Education Self-Contribution. Students leaving the DC metro area and working in certain high cost cities, such as New York City or San Francisco may have additional protection applied if not living with relatives during the summer. Students working in Tier 1 LRAP cities can receive an additional \$2000 post contribution reduction and Tier 2 LRAP cities (except Washington) receive an additional \$1,000.*