

02-03 Lecture: Personal Finance

Date Time: 2026-02-03 12:02:53

Location: Highland High School

Instructor: Mr. Burkhard

Summary

The lecture covers a personal finance course. The personal finance lectures provide detailed guidance on understanding tax refunds, budgeting for and purchasing a car, and managing credit. The instructor explains that large tax refunds are interest-free loans to the government and advises adjusting withholdings for better cash flow. The car buying section details budgeting rules (like the 15% rule for transportation), dealership sales tactics (upselling, the “four-square” grid), the importance of pre-approved financing, and the pros and cons of new versus used vehicles. Credit scores are explained, including how they impact interest rates and how to build a positive credit history.

Knowledge Points

1. Personal Finance: Tax Management

- **Understanding Tax Refunds:** A large tax refund (e.g., 8,700) *signifies an overpayment of taxes, essentially an interest – free loan to the government* (750 extra per month in the example) in each paycheck for immediate use, saving, or investing. The goal is to have withholdings be as accurate as possible. A refund is the return of your own money and is not taxed.
- **Tax Calculation Process:** The process involves starting with total income, applying either the standard deduction (\$15,750 in one example) or itemized deductions (whichever is greater) to find the taxable income. This figure is then used with tax tables to determine the total federal tax owed. For Colorado state tax, the adjusted income is multiplied by a rate of .0414. The total tax owed is then compared to the amount already withheld (from a W-2) to determine if a refund is due or a payment is owed.
- **Consequences of Tax Fraud:** Intentionally misreporting income can lead to an IRS audit. If fraud is proven, consequences can include prison time.

2. Personal Finance: Car Buying and Financing

- **Significance of Car Buying:** A car is often the first major financial purchase, involving a large loan and building a credit history. Mistakes can lead to high interest costs, negative equity, and a damaged credit score.
- **Budgeting for a Car (The 15% Rule):** Total transportation expenses should not exceed 15% of total monthly income. This is broken down into:
 - **Car Payment:** No more than 7.5% of monthly income.
 - **Other Costs:** The remaining 7.5% must cover gas, insurance, maintenance (estimated at 5% of the car's value annually), repairs, and registration.
- **Total Cost of Ownership:** This includes the purchase price, interest on the loan, insurance, maintenance, gas, registration, and depreciation. Depreciation is the significant loss of value a new car experiences, with a potential 20-30% drop in the first year.
- **New vs. Used Cars:**
 - **New Cars (Pros):** Full warranty, latest technology, customization, better financing rates, and no hidden history.
 - **Used Cars (Pros):** Lower price, avoids major initial depreciation, lower insurance costs, and the ability to afford a higher-end model for the same budget.
 - **Used Cars (Cons):** Lack of warranty, potential for unknown history (accidents, flood damage), and typically higher interest rates on loans.

3. Personal Finance: Car Buying Strategies and Tactics

- **Pre-Purchase Preparation:** Before shopping, determine your needs (e.g., gas mileage), set a firm budget, and research prices using resources like Kelley Blue Book and Edmunds. Avoid making emotional decisions at the dealership.
- **Secure Financing First:** Get pre-approved for a loan from your bank or credit union before visiting a dealership. This gives you negotiating power and prevents the dealer from profiting excessively on financing. Do not reveal your payment method (cash or pre-approved loan) until the final "out-the-door" price is agreed upon.
- **Dealer Sales Tactics to Recognize:**
 - **The "Warfare" Mentality:** Dealerships aim to maximize profit from every customer. Salespeople use tactics to keep you on the lot and create false urgency.
 - **Focus on Monthly Payments:** Salespeople and ads emphasize low monthly payments by extending loan terms (e.g., 84 months), distracting from the high total cost.

- **The Four-Square Grid:** A sales tool to confuse buyers by manipulating four variables: vehicle price, trade-in value, down payment, and monthly payment. The defense is to insist on negotiating the “out the door” price first.
- **Upselling Add-ons:** Dealers push unnecessary extras like warranties, undercoating, and expensive gap insurance. Gap insurance is much cheaper through your own insurance provider (e.g., \$5/month vs. \$1,000+ from the dealer).
- **Trade-ins and Negative Equity:**
 - **Trade-Ins:** Trading in at a dealership is convenient but yields a lower (wholesale) price. Selling privately is more lucrative but a hassle.
 - **Negative Equity (“Upside Down”):** This is when you owe more on a loan than the car is worth. Trading in a car with negative equity means the difference is rolled into the new car loan, a poor financial decision unless absolutely necessary.

4. Personal Finance: Credit Scores

- **What a Credit Score Is:** A number from 300-850 that represents your creditworthiness, based on your history of paying bills and managing debt.
- **Impact on Loans:** There is an inverse relationship between your credit score and interest rates.
 - **Excellent (750-850):** Qualifies for the lowest interest rates (e.g., 4%).
 - **Deep Subprime (300-500):** Results in very high interest rates (e.g., 29%) if a loan is approved at all.
- **Building Credit:** A recommended strategy for young people is to get a credit card, use it for small, regular purchases like gas, and pay the full balance off every month to avoid interest charges. Consistent, on-time payments build a positive credit history.
- **Debt-to-Income Ratio:** Lenders also consider this ratio, which should ideally be kept around 20-30%.

7. Upcoming Test and Assignments

- **Test Information:** A closed-note, 45-minute test was announced for Monday, February 8, 2026. It will feature 20 descriptive questions (e.g., “list and describe...”) covering all semester topics, including housing, taxes, and car buying. A study guide is available online.
- **Finance Assignments:**
 - **Car Buying Project:** Students must research and budget for a new car, using the hypothetical sale of an old truck (2,700 – 2,900 value) as a down payment.

- **Tax Project:** Students must complete a tax calculation assignment.
- **“Do Something Fun” Project:** A short exercise to research, price, and budget for a fun activity.

Assignments

- 1. Review the study guide and notes for the upcoming test on Monday, February 8, 2026.
- 2.
 2. Complete the personal finance assignments: the tax project, the “do something fun” budgeting exercise, and the car buying project.