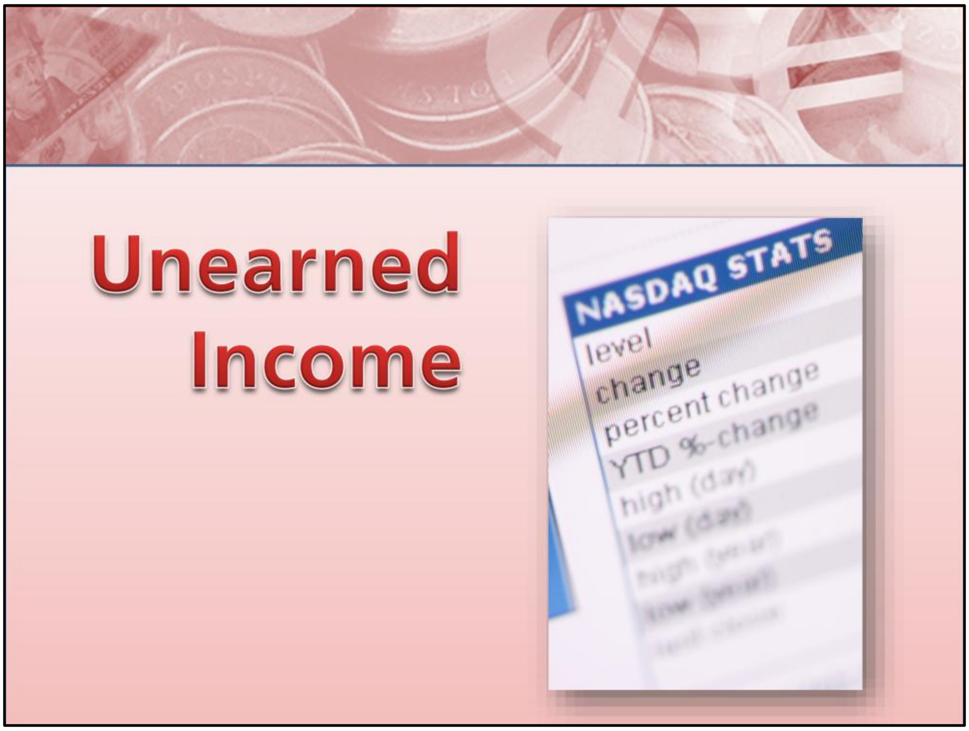


Unearned income is basically money that is given to you without you having to do anything to earn it.  Wow!  Free money.  How do I get in on that?  Well, let's look at some of the ways you can receive unearned income.


Interest is the first type of unearned income. When you put money in a savings account or an interest-bearing checking account, it earns interest while it is sitting in the bank. Basically, the bank pays you to let them use your money. What do they do with your money? They lend it to other people and charge them interest. Then they give you some of that interest for letting them use your money. You can also earn interest on investments such as certificates of deposit, money market accounts, bonds, mutual funds, etc.


Return on investment is another way to receive unearned income. This has to do with stocks. Very simply, return on investment is the money you make on your investment. Return on investment is the percentage of the total cost of buying stock and the profit you make upon selling your stock. When you purchase stock for a company, you pay the asking price for that stock and any broker or transaction fees, and you become an owner in that company. The price of the stock and the added costs make up the total cost of the investment. When a company makes a profit, it may decide to distribute some of the earnings to the stock owners, or shareholders. This distribution of earnings is called dividends. Dividends are unearned income that figure into your return on investment. Later you may decide to sell the stock. Your goal is to sell the stock for a higher amount than you paid for it. The difference between the purchase price and the selling price is called profit or capital gain. Dividends received plus the profit you make when you sell the stock is your total profit on your investment. To calculate return on investment, you divide your total profit by the total cost of the investment and that is your return on investment. Let's look at an example. Suppose Sally purchased 10 shares of stock in XYZ Company for $25 a share plus a broker's fee of $5. So the total cost of the investment in this stock is $25 x 10 shares = $250 + $5 = $255. Sally keeps her shares for 1 year and during that time she gets a dividend check for $25. Then she sells her shares of stock for $30 per share. Her total profit for this investment is $30 x 10 shares = $300 - $255 cost = $45 profit from sale of stock + $25 in dividends = $70 total profit on the investment. To calculate the return on investment, divide the total profit by the total cost of the investment $70 / $255 = 27.5% return on investment. The unearned income in this case would be $70 because you didn't have to earn the dividends or the profit from the sale of the stock.

# Unearned Income

- Interest
- Return on Investment
- Inheritance


An inheritance is money or property that is left to you after someone dies. Obviously, you didn't have to do anything earn an inheritance, so this type of income would be considered unearned also. Taxes on inheritances are different in each state so you would have to find out how much of the inheritance you would need to pay tax on before you file your taxes.


If someone gives you some money as a gift, the money would be considered unearned income. As of January 1, 2009 according to the IRS, a person can give up to $13,000 a year to another person without a gift tax being imposed. If, however, the gift is given within three years of a person's death, then the recipient of the gift may have to pay an inheritance tax on it.


Check your knowledge of earned and unearned income with this practice.