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Dividing the Financial Pie

Giving, investing and saving, like any form of discipline, has a subtle effect. At the end of the day, a week, a month, the results are hardly noticeable. But let years lapse and the differences become pronounced.

by **Jim Rohn**

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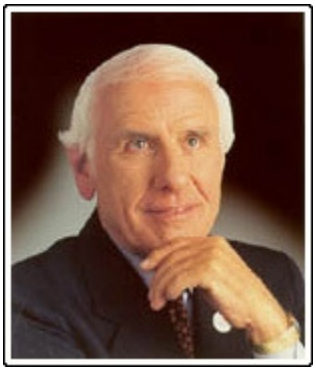


I believe real-life economics must be one of the most glaring omissions in our educational system. I say this because in my travels to lecture throughout the world, I constantly run into otherwise well-educated people -- doctors, lawyers, top corporate personnel, even entrepreneurs – who haven't the vaguest idea as to how to manage their finances.

So if you will indulge me, I would like to share a simple formula of how money should be allocated for the creation of wealth.

Taxes -

Yes, I did say taxes. I realize that the topic of taxes may seem like a strange place to begin the discussion of creating wealth. And yet throughout our lives, whether young or old, we must learn the necessity of paying taxes. And as soon as they have any money at all, our children, too, must learn that when they spend money they immediately become consumers. And all consumers of goods and services, no matter how young, must pay taxes. Why?

Because we have all agreed to live as a society, and for that society to function properly,

there are some things we cannot do for ourselves alone.

For example, we cannot each build a piece of the street. The machinery would be too expensive, and it would take too long to learn how to use it. So we have a government. And a government is made up of people who do things for us that we cannot or do not want to do ourselves. Because the streets, the sidewalks, the police, and the fire department must all be paid for, we've agreed to add some money each time we buy something and give it to the government.

We then move on to federal taxes. Here is a good way to explain federal taxes. I call it "The Care and Feeding of the Goose that Lays the Golden Eggs." It's so important to feed the goose -- not to abuse the goose or tear off its wings -- but to feed and care for it.

What's that you say? The goose eats too much? That's probably true. But then, don't we all eat too much? If so, let not one appetite accuse another. If you step on the scales and you're ten pounds too heavy, you've got to say, "Yes, the government and I are each about ten pounds too heavy. Looks like we both eat too much."

No question about it. Every appetite must be disciplined -- yours, mine, and the governments'. Hey, we could all go on a diet!

My mentor, Mr. Shoaff urged me early on to become a happy taxpayer. Now, I must admit it took a while, but I finally did become a happy taxpayer. Part of this transformation occurred when I began to understand the function of taxes and that it is right for everyone to pay his or her fair share.

I finally decided I didn't mind picking up my share of the tab for defense. It's so necessary for our safety as a country to keep the international bullies away. Some people say, "Why bother with all that expensive

equipment? They won't come over here." Obviously, those people haven't been reading their history books.

Others say, "We're not about to pick up the tab for defense." Well then, I suggest they go to a place which doesn't offer defense as part of the package. If one is going to enjoy the benefits, one should pay a share. Now, let me add this:

> ***Don't pay more than you should. By all means take advantage of the incentives. They were given to you as a reward for channeling your money into areas the government thinks helps the economy.***

All I'm saying is that when everything has been computed, all legitimate deductions have been taken, and you reach that last line on your income tax form, whatever the amount, pay it. And pay with happiness, knowing that you're feeding the goose that lays the golden eggs - the golden eggs of freedom, safety, justice, and free enterprise. Some goose! Some eggs!

The 70/30 Rule -

After you pay your fair share of taxes, you must learn to live on seventy percent of your after-tax income. This is important because of the way you'll allocate your remaining thirty percent. The seventy percent you will spend on necessities and luxuries. The thirty percent? Let's allocate it in the following ways:

1) Charity

Of the thirty percent not spent, one-third should go to charity. Charity is the act of giving back to the community that which you have received in order to help those who need assistance. I believe that contributing ten percent of your after-tax income is a good amount to strive for. (You may choose a larger or smaller amount -- it's your plan.)

The act of giving should be taught early in life. The best time to teach a child the act of charity is when he gets his first dollar.

Take him on a visual tour. Take him on a tour of a place where people are truly helpless so that he learns compassion. If a child understands, he won't have any trouble parting with a dime. Children have big hearts.

There is another reason why the act of giving should be taught early and when the amounts are small: It's pretty easy to take a dime out of a dollar. But it's considerably harder to give away a hundred thousand dollars out of a million. You say, "Oh, if I had a million I'd have no trouble giving a hundred thousand." I'm not so sure. A hundred thousand is a lot of money. We'd better start you early so you'll develop the habit before the big money comes your way.

2) Capital Investment
With your next ten percent of your after-tax income you're going to create wealth.

This is money you'll use to buy, fix, manufacture, or sell. The key is to engage in commerce, even if only on a part-time basis.

So how do you go about creating wealth with the ten percent of your income you set aside for that purpose? There are lots of ways. Let your imagination roam. Take a close look at those skills you developed at work or through your hobbies; you may be able to convert these into a profitable enterprise.

In addition, you can also learn to buy a product at wholesale and sell it for retail. Or you can purchase a piece of property and improve it. And if you're fortunate enough to work at a place where you're rewarded for

additional productivity, you can work for more income and use this income to invest in an ownership position through the purchase of stocks.

Use this ten percent to purchase your equipment, products, or equity -- and get started. There is no telling what genius lies sleeping inside you waiting to be awakened by the spark of opportunity.

Here is an exciting thought! Why not work full time on your job and part time on your fortune?

Why not, indeed? And what a feeling you'll have when you can honestly say, "I'm working to become wealthy. I'm not just working to pay my bills." When you have a wealth plan, you'll be so motivated that you'll have a hard time going to bed at night.

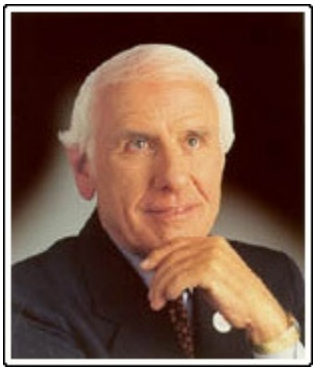
3) Savings
The last ten percent should be allotted to savings. I consider this to be one of the most exciting parts of your wealth plan because it can offer you peace of mind by preparing you for the “winters" of life. And through the magic of compounding interest, greatly aided by the new tax-free retirement programs available to every working person in this country, you can accumulate a princely sum over the years.

Let me give you the definition of "rich" and "poor." Poor people spend their money and save what's left. Rich people save their money and spend what's left.

Twenty years ago, two people each earned a thousand dollars a month and they each earned the same increases over the years. One had the philosophy of spending money and saving what's left; the other had the philosophy of saving first and spending what's left. Today, if you knew both, you'd call one poor and the other wealthy.

So, remember that giving, investing and saving, like any form of discipline, has a subtle effect. At the end of the day, a week, a month, the results are hardly noticeable. But let five years lapse and the differences become pronounced. At the end of ten years, the differences are dramatic.

And it all starts with the same amount of money -- just a different philosophy.



Jim Rohn is considered to be "America's Foremost Business Philosopher". He's been delivering his life and work-changing seminars for over 39 years... addressed over 6,000 audiences and four million people worldwide... he's the recipient of the 1985 National Speakers Association CPAE Award... authored 17 different books, audio and video programs... and, Mr. Rohn is internationally hailed as one of the most influential thinkers of our time.

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