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First paycheck? Where your money could be going.

Now that money is coming in, here are tips to understand where it could be going.

Fidelity Viewpoints

Key takeaways

> Your paycheck will likely not be the actual dollar figure you take home—that's normal.
>
> Money from income is probably already withheld for taxes, Social Security, and Medicare.
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> Now that you have an income it is wise to start saving for emergencies and retirement.

If you are like most young workers, the actual dollar figure you take home can be a bit of a shock. This money isn't disappearing, though. Rather, it's going toward things like taxes, Social Security, and benefits like health care and retirement savings.

Knowing where your money goes and how it is spent is a critical component of getting control of your finances and reaching your goals. Starting early with good financial habits can help you lay the groundwork for success along your financial journey. And no, it is not too early to think about retirement.

Read on to learn more about where money from your paycheck is going, and some easy financial habits to consider from your very first paycheck to help save for tomorrow.

Understanding taxes

A portion of your paycheck will go to taxes. Here are some to keep an eye on.

Payroll taxes. If you have a job, your employer will generally withhold a portion of each paycheck to pay state and federal income tax, based on your income bracket tax rate, as well as the Federal Insurance Contributions Act tax (FICA), which is the government program that funds Social Security and Medicare. When you complete your tax return at the end of the tax year, you'll learn that you either overpaid or underpaid your total taxes for the year. Depending on the outcome, you'll either receive a refund from the IRS or be obligated to send them a check for what you owe.

Self-employment taxes. If you work for yourself—perhaps as a freelancer or a business owner—you must pay self-employment tax, which accounts for both the employer's and employee's respective shares of FICA. And if you don't have an employer to withhold your taxes, you may need to file estimated taxes quarterly with the IRS and your state treasurer. For more information, visit the IRS Self-Employment Tax page.

Filing your income-tax return. You might be filing your first return for which you are not claimed as a dependent of your parents. Fortunately, it's typically easy. The key is to stay organized. Early each year you'll receive your W-2 forms (listing any employment income you earned during the previous year) and various 1099 forms (which include income from self-employment, dividends, interest, and other sources). Create a simple system for collecting and categorizing these and any other financial documents.

If you have all necessary documents on hand when tax season rolls around, it should be easy to complete the appropriate forms—either on paper or using an online tax software program. If you want someone to help you and you don't mind paying a fee, you can take all your paperwork to a certified public accountant. No matter how you do your taxes, it's smart to start early to avoid last minute stress.

Other important things to think about now that you have a paycheck:

Use your HSA if you have one: A health savings account (HSA), a high-deductible health plan option, is one of the most tax-efficient savings options currently available. Check to see if your employer offers one. To learn more about HSAs read more *Viewpoints* on Fidelity.com: 5 ways HSAs can help with your retirement.

Build up emergency savings: At some point, you're likely to have an urgent need for cash, whether your car breaks down, you get laid off, or you need to move for a new job. In all cases, you need a financial cushion to fall back on. During your first year of full-time employment, Fidelity suggests starting to build up your emergency savings by setting aside $1,000. Then work toward a goal of saving at least 3 to 6 months' worth of essential monthly expenses in an easily accessible savings account, and only touch it when absolutely necessary. To learn more about saving for emergencies, read more *Viewpoints* at Fidelity.com: How much to save for emergencies.

Start saving for retirement: Retirement probably seems far away but setting aside even a small portion of your income now will make it easier to build the savings you'll eventually need to retire. If your employer offers a retirement plan, sign up for it. If you have a 401(k), 403(b) or 457 plan and your employer offers a matching retirement contribution, take advantage of it. The matching contribution is like getting "free" money. Plus, you get the potential benefits of tax-deferred growth and compounding returns.

The sooner you start, the more potential your money has to grow. In many instances, you can set up an automatic contribution to your employer's retirement plan, so that a percentage is taken out of your paycheck each month. This is a great idea, because having the contributions automated will reduce the temptation to spend that money elsewhere.

Graduation from college and/or starting your first full-time job entirely revamps your financial situation: You have a new degree of freedom to live the life you want to live, and you have new financial responsibilities, from taxes to possible loan payments.

Building good financial habits is a critical part of creating the life you have always dreamed of living. Now that you understand more about your paycheck, make sure to start saving for your future. Small steps today could set yourself up for financial success tomorrow.

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