

8.3 Income Tax & Deductions

Deductions - money deducted (taken off) your gross income.

By law employers must take deductions from employee paycheques. These include:

- Canadian Pension Plan (CPP)
- Employment Insurance (EI)
- Income Tax (Federal / Provincial)

What are taxes?

Taxes are required contributions to federal and provincial revenue, levied by the government on personal income and business profits or added to the cost of some goods, services, and transactions (GST & PST).
7% 5%

What are taxes used for?

- infrastructure (roads, bridges, etc).
- education
- social services
- health care

Benefits - range of programs that benefit the employee and is deducted from gross income.

Other deductions may include:

- Union dues
- Pension (or retirement savings)
- Extended Health/Vision insurance
- Extended Dental insurance
- Life Insurance

Taxable Income - income after non-taxable deductions have been applied. Used for taxable deduction calculations.

<u>Taxable</u>	<u>Non-Taxable</u>
Canada Pension Plan (CPP) ~ 3%	Union Dues
Employment Insurance (EI) ~2%	Pension
Income Tax – 18% if you earn less than 32,000 annually	Short/long term disability
Federal Tax	
Provincial Tax	
Life Insurance	
Extended Health / Dental ~ 5%	

Example 1:

John's group life insurance is 1.5% of his salary of \$450.00 every two weeks. How much does he pay for group life insurance?

$$\frac{1.5}{100} = 0.015$$

$$\$450.00 \times 0.015 = \$6.75$$

Example 2:

Hank paid \$37.51 Employment Insurance (EI) on his taxable monthly income of \$2168.21. What is the EI rate? %

$$\frac{\$37.51}{\$2168.21} \times 100 = 1.7\%$$

Net Income ("take home pay") - income after all deductions have been applied.

Net Income = Gross Income – Deductions

Example 3:

Kara earns \$400 a week, working for a telemarketing firm. The deductions from her bi weekly pay are:

EI	\$8.55
CPP	\$13.45
Income Tax	\$44.15
Company Pension Plan	\$9.50
Health Plan	\$10.40

Calculate her:

- $\$400 \times 2 = \underline{\underline{\$86.05}}$
- a) Gross Income = $\$800$
- b) Deductions = $\$86.05$
- c) Net Income = $\$800 - \$86.05 = \$713.95$

Example 4:

Kylie receives an annual salary of \$53 750.

- a) Calculate Kylie's bimonthly pay. $\div 24$ pay periods

$$\frac{\$53\,750}{24} = \$2\,239.58$$

- b) Kylie's before tax deductions include union dues of 3.5% and pension amount of 4.5%. If she pays federal tax of 19%, provincial tax of 6.8%, CPP at 4.95% and EI at 2% what is her net monthly income?

$$4.5 + 3.5 = 8\% \text{ non-taxable} \quad 0.08 \times \$2\,239.58 = \$179.17$$

$$\$2\,239.58 - \$179.17 = \$2\,060.41 \quad \leftarrow \text{taxable income}$$

$$19 + 6.8 + 4.95 + 2 = 32.75\% \text{ taxable}$$

$$0.3275 \times \$2\,060.41 = \$674.78$$

8.3 Worksheet

$$\$2\,060.41 - \$674.78 = \$1\,385.63$$

net income