

4.1 Income and Payroll Deductions

Focus: working with forms, number sense, data management

Warm Up	
<p>1. Define gross income.</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>2. Jana earns about \$650 per week. Calculate her approximate annual gross income.</p>
<p>3. Define net income.</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>4. Calculate the annual net income for Jana in #2 if she takes home approximately 80% of her gross income.</p>

Who Determines Deductions?

The **Canada Revenue Agency (CRA)** is the federal government agency that collects taxes. The taxes pay for federal and provincial programs and services, such as health care and education.

- The CRA determines what percent of your gross income you will contribute to the **Canada Pension Plan (CPP)** and to **Employment Insurance (EI)**.

Employment Insurance provides income for unemployed workers.

The Canada Pension Plan provides income for retired workers.

Go to pages 45–50 to write definitions for **Canada Revenue Agency (CRA)**, **Canada Pension Plan (CPP)**, **Employment Insurance (EI)**, and **TD1** in your own words.

- The amount of federal income tax and provincial income tax that you pay depends on how much you earn, where you live, and a number of other factors.
- Your net income will be determined, in part, by how you complete the **TD1**. The TD1 is the form your employer uses to determine the amount of federal and provincial tax to deduct from your pay.

1. a) What is the basic personal amount this year? _____

b) What is the purpose of the basic personal amount?

You can earn at least this amount before you have to start paying income tax.

c) How much tax would be withheld from your gross pay if you earned less than the basic personal amount? _____

Gross pay is your total earnings before any deductions are taken off.

2. a) List any other amounts on the TD1 form that apply to you at present.

b) List any amounts on the TD1 form that may apply to you next year.

For the current federal TD1 form, go to **www.mcgrawhill.ca/books/workplace12** and follow the links.



c) What is your total claim amount? _____

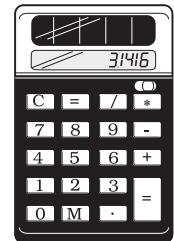
3. a) List each of your sources of income. Beside each, record your expected gross income for this year.

Hint: Do you have more than 1 job? Do you receive income that is not taxed? For example, tips are taxable income, but tax is not deducted when you get the tips.

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b) What is your expected total gross income for this year from all sources? _____

c) Will your total gross income this year be more than your total claim amount? YES NO Explain.

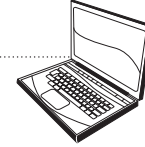


4. Complete the TD1 form for your present circumstances. Keep the completed form with your notes or attach it to this page.

Calculating Net Income

- Many young adults can claim only the basic personal amount on the TD1. This is Tax Claim Code 1.
- The CRA has an online calculator that allows you to calculate net income.

Tax Deductions		
Deductions	Amount	Y-T-D Amount
Federal tax	200.00	2000.00
Provincial tax	150.00	1500.00
CPP	24.00	240.00
EI	100.00	1000.00
	474.00	



Tech Tip: Using the CRA Payroll Calculator

Example

- a) Anna has a weekly income of \$300. What is her weekly net income after payroll deductions?

Go to the CRA payroll deductions online calculator.

- Select **Ontario** and then select **Weekly (52 pay periods a year)**. The calculator will default to Claim Code 1.
- Click on **Salary / Bonus / Retroactive / Pension calculation**.
- Click on **Determine Gross Income**. Enter Anna's gross income.
- Click **OK**. Then, scroll down and click **Calculate**.

For the CRA payroll deductions online calculator, go to www.mcgrawhill.ca/books/workplace12 and follow the links.



Determine gross income	300.00
Determine taxable income	0.00
Bonus	
Total current bonus payable (if applicable)	0.00
Previous bonus (es) (if applicable)	0.00
RRSP, etc. deducted from current bonus (if applicable)	0.00
Retroactive Pay	
Total retroactive pay increase payable (if applicable)	0.00
RRSP etc. deducted from retroactive pay increase (if applicable)	0.00
Number of pay periods applied to (if applicable)	1
CPP deducted year to date	0.00
EI deducted year to date	0.00
Total claim amount from federal TD1	
Claim Code 1 (Minimum - 10,382.00)	
Requested additional tax deductions from TD1 (if applicable)	0.00
Total claim amount from provincial TD1	
Claim Code 1 (Minimum - 8,943.00)	
Employment Insurance (EI)	
The employer's contribution is an amount equal to 1.4 times the total of the employee's premiums, unless a reduced rate applies. If a reduced rate is applicable, enter the rate in the field:	0.000
<input type="button" value="Back"/> <input type="button" value="Calculate"/> <input type="button" value="Clear"/>	

Payroll Deductions Online Calculator**Results - Effective January 1, 2010**

Employee's name	
Employer's name	
Pay period	Weekly (52 pay periods a year)
Pay period ending date	
Province of employment	Ontario
Federal amount from TD1	Claim Code 1 (Minimum - 10,382.00)
Provincial amount from TD1	Claim Code 1 (Minimum - 8,943.00)
<hr/>	
Salary or wages for the pay period	300.00
Total EI insurable earnings for the pay period	300.00
Taxable income	300.00
Cash income for the pay period	300.00
Federal tax deductions	9.51
Provincial tax deductions	3.32
Requested additional tax deduction	0.00
Total tax on income	12.83
CPP deductions	11.52
EI deductions	5.19
Amounts deducted at source	0.00
Total deductions on income	29.54
Net amount	270.46

Anna's net income after payroll deductions is _____.

- b)** What percent of her gross income is Anna's net income? Express the answer to the nearest percent.

$$\frac{270.46}{300.00} \times 100 = \text{_____} \%$$

Anna's net income is _____ of her gross income.

- 1.** Go to the CRA payroll deductions online calculator. Use the calculator to help complete the table.
- Determine the weekly net income for each weekly gross income.
 - Calculate net income as a percent of gross income. Express the answer to the nearest percent.

Weekly Gross Income	Weekly Net Income	Net Income as a % of Gross Income
a) \$200		
b) \$400		
c) \$600		
d) \$800		

2. Using the online calculator, complete the pay stub for an employee with a gross income of \$800 last week.

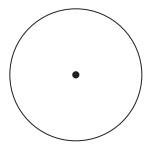
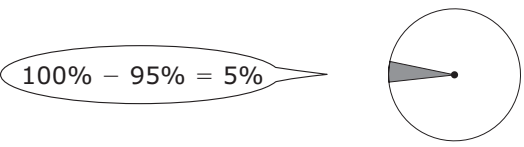
Week of: _____	
Gross Income	
Deductions	
• Federal tax	
• Provincial tax	
• CPP	
• EI	
Total Deductions	
Net Income	

Showing Net Income

5. Refer to the data for #1 on page 131. Shade the percent of the circle that is deducted from gross income. The first one is done for you.

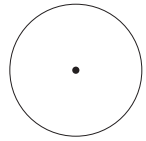
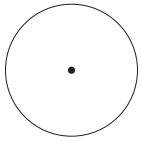
a) \$200 per week

b) \$400 per week



c) \$600 per week

d) \$800 per week



6. a) Refer to the circle graphs you completed above. What pattern do you observe about deductions and gross income? _____
- b) Based on this pattern, in general, the more you earn, the _____ your _____.

- 7. a)** Tyler holds 2 part-time jobs. He earns about \$200 per week at 1 job and \$300 per week at the other. Use the CRA online calculator to complete the table.

	Weekly Gross Income	Deductions					Weekly Net Income
		CPP	EI	Federal Tax	Provincial Tax	Total	
Job 1							
Job 2							
Total							

- b)** Slodjana works an average of 40 hours per week at \$12.50 per hour. Use the CRA online calculator to determine her weekly deductions and her weekly net income.

Weekly Gross Income	Deductions					Weekly Net Income
	CPP	EI	Federal Tax	Provincial Tax	Total	

- c)** Compare the total deductions for Tyler and Slodjana. What financial risk is Tyler running?

- d)** Suggest two strategies for reducing this risk.

Check Your Understanding

- 1.** Why do Canadians need to file a tax return?

- 2.** Fill in the blanks with the missing terms.

_____ Income = _____ Income - _____.

- 3.** Why is it important to complete a TD1 accurately?
