

4.3 Tax Deductions and Tax Credits

Focus: working with forms, filing income tax, reducing tax, number sense

Warm Up	
<p>1. If Ivanka saves \$50 per week, she will save \$_____ in 1 year.</p>	<p>2. a) I will be 65 years of age in _____ years.</p> <p>b) The year will be _____!</p>
<p>3. If you save \$50 per week for the number of years in #2a), you will save \$_____.</p>	<p>4. a) What is 3% of \$100? _____</p> <p>b) What is 3% of \$1000? _____</p> <p>c) What is 3% of \$2000? _____</p> <p>d) What is 3% of \$3000? _____</p>
<p>5. Calculate:</p> <p>a) 15% of \$100 \$ _____</p> <p>b) 15% of \$1000 \$ _____</p> <p>c) 15% of \$10 000 \$ _____</p> <p>d) 15% of \$20 000 \$ _____</p>	<p>6. Gavin's gross pay is \$780 per week. His employer deducts \$292.50 to pay income tax, CPP, EI, and health insurance.</p> <p>a) What is Gavin's net pay?</p> <p>_____</p> <p>b) What percent of Gavin's gross pay is his net pay?</p> <p>_____</p>

What Are Tax Credits?

Expenses are treated in different ways when you file an income tax return.

- The full amount of a tax deduction is subtracted from income to determine taxable income. Child care expenses, moving expenses, and union dues are examples.
- Only a percent of the total amount of a **tax credit** can be used to reduce the amount of tax that you owe. The government gives tax credits to reduce taxes and to encourage certain types of activity or investment. Tuition fees, medical expenses, and charitable donations are examples.

Go to pages 45–50 to write a definition for **tax credit** in your own words.

1. Kristi had a total income of \$48 540 last year.
 - She contributed \$2000 to a registered retirement pension plan (RRSP).
 - She contributed \$3500 to a pension plan through work.
 - She paid \$700 in union dues.
 - The total of her child care expenses was \$4000.
 - a) Get a copy of page 3 of the T1 General form. Insert Kristi's amounts on the appropriate lines of page 3.
 - b) Calculate the total tax deductions from Kristi's income.

 - c) What line does this amount go on? _____
 - d) Calculate Kristi's net income and her taxable income. Fill in the appropriate lines.
 - e) Will Kristi pay income tax on the amount from part b)? YES NO Explain.

Tax Credits

Out of the Cold Program BN / Registration # <u>2345678</u>		Receipt # 0001
Date donation received: <u>October 20, 20XX</u>	Donated by: <u>Kristi B Jones</u> (First name, initial, last name)	
Eligible amount of gift for tax purposes: <u>\$75.00</u>	Address: <u>123 Main St.</u> <u>Anytown, ON</u> <u>N5A 6S5</u>	
Date receipt issued: <u>December 20, 20XX</u>		
Location issued: <u>Anytown, ON</u>		
Authorised signature: _____		

2. You need receipts in order to claim a tax credit.
 - a) What receipt is shown here? _____
 - b) List the key information on this receipt.

For the current Schedule 1 form, go to **www.mcgrawhill.ca/books/workplace12** and follow the links.



Your Turn

In order to claim tax credits, you need to complete **Schedule 1**. This form is used to calculate federal tax. Get a copy of the most recent Schedule 1 form. Use it to answer the following questions.

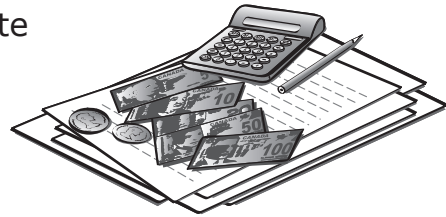
3. How many steps are involved in completing Schedule 1? _____
4. **a)** Highlight the federal non-refundable tax credits that apply to you.
- b)** Record values for the highlighted items. Use estimates when needed. Then, complete Step 1. What is the total amount of federal non-refundable tax credits? _____
- c)** Use a different colour to highlight tax credits that may apply to you within a couple of years. Explain your choices.

What tax credit is every Canadian entitled to claim?

Go to pages 45–50 to write definitions for **Schedule 1** and **ON428** in your own words.



5. Complete Step 2. Then, complete Step 3 to determine your net federal tax.



Get a copy of the most recent Ontario Tax form called **ON428**. This form is used to calculate provincial tax in Ontario. Use it to answer the following questions.

6. How many steps are involved in completing the Ontario Tax form? _____
7. **a)** Read the steps. The steps are similar to those for completing Schedule 1. For each step, highlight the items that apply to you.
- b)** Record values for the Ontario non-refundable tax credits you highlighted. Use estimates when needed. Then, complete Step 1. What is the total amount of Ontario non-refundable tax credits? _____

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



- c) Use a different colour to highlight the items that may apply to you within a couple of years. Explain your choices.

d) Complete Step 2 and Step 3.

- e) Complete any other steps that apply to your situation. Then, go to Step 7 and determine your total Ontario tax.

You will use this work to complete page 4 of the T1 General form in the next section.

✔ Check Your Understanding



1. What do you think is the answer to the customer's question? YES NO Explain why.

2. Kyoko has a receipt for a donation to the United Way and another for professional dues.

a) For tax purposes, how is each item classified?

b) Where would each item appear on a tax return?
