

Day 6: Deductions

When you are employed, the following are deducted from your wage:

CPP - Canada Pension Plan

government run pension (\$944.78 max per year).

EI - Employment Insurance

fund to help support the unemployed
due to disability, maternity, etc... (\$1131 max per year)

Income Tax - Government collected taxes used to run the country.

(Good luck finding a maximum!!!)

Though the three above are mandatory, many other deductions from a paycheque are possible. The following deductions are examples of tax exempt deductions:

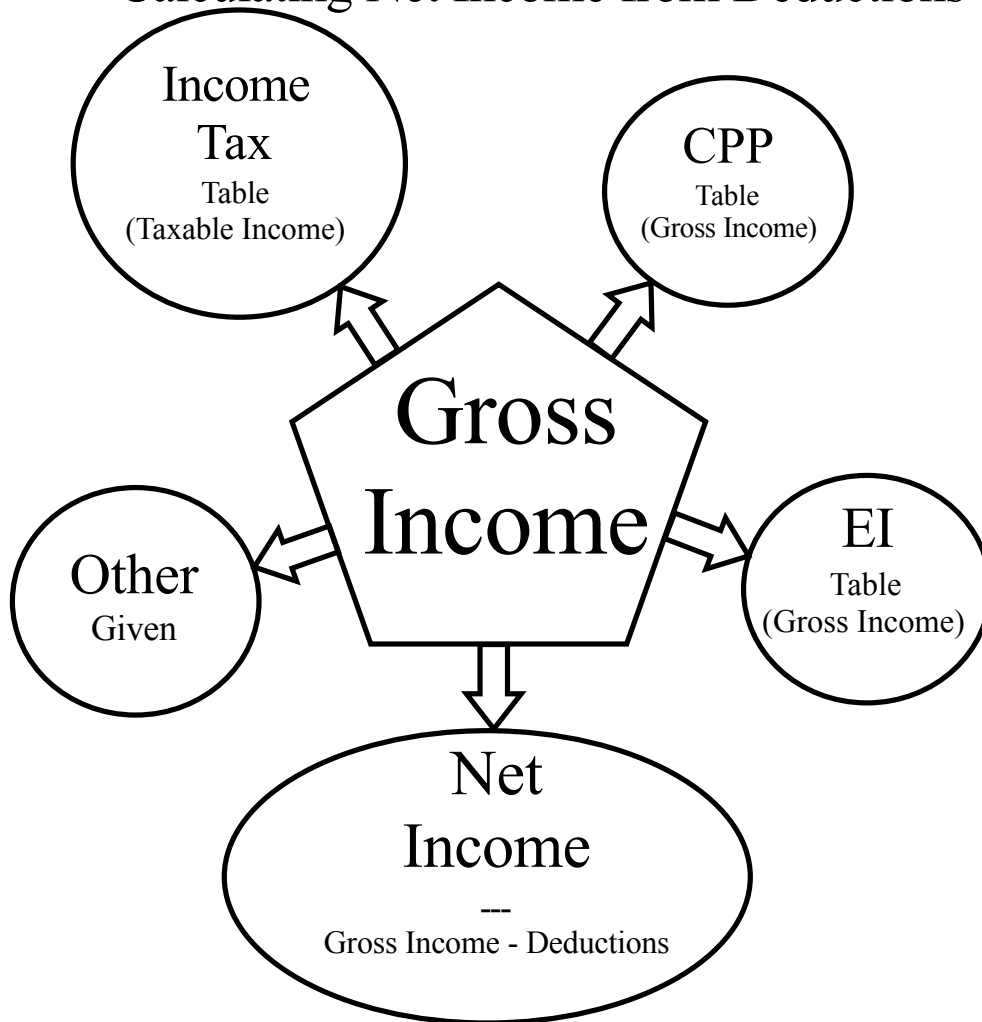
RRSPs, union dues, child support and registered pension plans.

To use the tables found on pgs. 78-81 to find the deductions for a particular pay, the following guidelines are necessary.

- to determine CPP and EI, use gross income.
- to determine income tax, use taxable income.

****Taxable Income = gross income - tax exempt deductions**

Calculating Net Income from Deductions



Example 1: Billy Joe Bob runs a salvage yard where Cletus works. He pays Cletus \$1140 every 2 weeks. Cletus' TD1 claim code is 2, and he pays \$150 every 2 weeks into an RPP. Calculate Cletus' deductions and net income.

CPP: \$ 29.41

EI: \$ 33.06

Income Tax:
\$ 191.80

Taxable Income:
 $1140 - 150 = \underline{\underline{\$990}}$

Net Income: 1140

- 29.41 (CPP)
- 33.06 (EI)
- 191.80 (Tax)
- 150

\$ 735.73

Example 2: Suppose Josh wants to estimate his deductions and net pay before receiving his pay stub - use the chart on pg. 46 to help do this. His gross earnings are \$1200 every 2 weeks.

$$\text{CPP: } 1200 \times 0.03 = \$36$$

$$\text{EI: } 1200 \times 0.03 = \$36$$

$$\text{Income Tax: } 1200 \times 26\% = 31,200$$

$$0.29 \times 1200 = \$348$$

$$\text{Net Income: } 1200 - 36 - 36 - 348 = \$780$$

Example 3: Logan earns a monthly salary of \$2950. Each month, in addition to mandatory deductions, he pays \$48 union dues, \$205 into an RPP and \$35 parking. **Estimate** his net earnings.

$$\text{CPP: } 2950 \times 0.03 = \$88.50$$

$$\text{EI: } 2950 \times 0.03 = \$88.50$$

Income Tax: Taxable Income:

$$2950 - 48 - 205 =$$

$$\$2697$$

$$0.29 \times 2697 = \$782.13$$

$$2697 \times 12 = \$32,364$$

$$\text{Net Income: } 2950 - 88.50 - 88.50 - 48 - 205 - 782.13 - 35$$

$$\$1702.87$$

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5, 8, 11, 13