

**Finance Lesson 3: Deductions and Net Pay**

Deductions are amounts of money taken off your gross pay for income tax (federal and provincial or territorial), union dues, disability insurance, employment insurance (EI), pension plans (including the Canada Pension Plan or CPP), and health or other benefits. Income tax is paid on your **taxable income**.

Each paycheck should list your gross pay, all deductions, and your **net income**. At the end of the year, your employer will supply you with a T4 slip that you will use to prepare your income tax return.

Ex. 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?

$$0.015(450) = \$6.75 \text{ every 2 weeks}$$

Ex. 2) If the federal tax rate is 15%, how much is deducted from your \$750.00 paycheck?

$$\$750(0.15) = \$112.50$$

Ex. 3) If your Canada Pension Plan (CPP) contribution rate is 4.95% and your salary is \$1578.00 every two weeks, what will be the CPP deduction?

$$0.0495(\$1578) = \$78.11$$

Ex. 4) Jaar had a gross income of \$785.00. His net income was \$625.42. What percentage of his gross pay were his deductions?

$$\begin{aligned} \text{Deductions: } & \$785 - \$625.42 = \$159.58 \\ & \$159.58 \div \$785 = 0.2033 = 20.3\% \end{aligned}$$

Ex. 5) Patricia's before-tax deductions amounted to \$75.47 on a gross salary of \$700.00.

$$700 - 75.47 = \$624.53$$

a) If she paid \$93.68 in federal tax, what is her tax rate?

$$\$93.68 \div \$624.53 = 0.15 = 15\%$$

b) If she paid \$36.85 in territorial tax, what is her tax rate?

$$\$36.85 \div \$624.53 = 0.059 = 5.9\%$$

Ex. 6) Alphonso has a gross income of \$852.00 per week. His before-tax deductions include union dues of 2.5% of his gross income and a company pension plan contribution of 3%. His federal tax rate is 16.2% and his provincial tax rate is 5.4%. He pays 4.95% to the CPP and 1.8% for EI. Calculate his net income.

$$\text{Before tax deductions: } 852(0.025 + 0.03) = \$46.86$$

$$\text{Pre-tax: } \$852 - 46.86 = \$805.14$$

$$\begin{aligned} \text{Other deductions: } & 805.14(0.162 + 0.054 + 0.0495 + 0.018) \\ & = \$228.26 \end{aligned}$$

$$\text{Net Income: } \$576.88$$

Ex. 7) Randy works at two jobs. In one job, he earns \$325.00/week, and has deductions of \$56.67 federal tax, \$13.12 provincial tax, \$16.09 CPP, and \$4.14 EI. At his other job, he earns \$567.00/week and pays \$79.42 federal tax, \$16.82 provincial tax, and \$18.12 CPP. What is his net income?

$$\begin{aligned} & \text{Earnings} - \text{Deductions} \\ & = \$325 + \$567 - (\$56.67 + \$13.12 + \$16.09 + \$4.14 + \$79.42 + \\ & \quad 16.82 + \$18.12) \\ & = \$687.62 \end{aligned}$$

Ex. 8) As a part-time college instructor, Kathy teaches an introductory course on Mexican history. She has a biweekly gross income of \$3654.75. Her before-tax deductions include a short-term disability premium of 0.5%, union dues of 3.1%, and a pension amount of 4%. If she pays federal tax at a rate of 18.5%, provincial tax at a rate of 6.2%, CPP at 4.95%, and EI at 2.2%, what is her net income?

$$\begin{aligned} & \text{Pre-tax Deductions: } \$3654.75(0.005 + 0.031 + 0.04) \\ & \quad = \$279.76 \\ & \text{Pre-tax Income: } \$3376.99 \\ & \text{Taxes: } \$3376.99(0.185 + 0.062 + 0.0495 + 0.022) \\ & \quad = \$1075.57 \\ & \text{Net: } \$2301.42 \end{aligned}$$

Ex. 9) Consider the following pay statement.

Employee Name: Hank		Job Title:	
Company:	Pay Begin Date: 06/01/2010	Pay Rate:	\$575.00
	Pay End Date: 06/15/2010	Annual:	\$29 900.00
<b>General</b>		<b>Taxes Data</b>	
Employee ID:		Description	Federal
Address:		Claim Code	1
<b>Hours and Earnings</b>		<b>Taxes</b>	
	Current	Description	Current
Description	Rate	Federal	\$48.01
		Provincial	\$21.64
Regular	\$575.00/wk	CPP	\$25.13
		EI	\$9.95
		Total	\$104.73

a) What is Hank's gross weekly income?

$$\$575$$

b) What is his net income?

$$\$1045.27$$

c) What percent of his taxable income did he pay in federal taxes?

$$48.01 \div 1150 = 4.2\%$$