

2.4 Deductions and Net Pay

Name: ky

Date: _____

Connect:

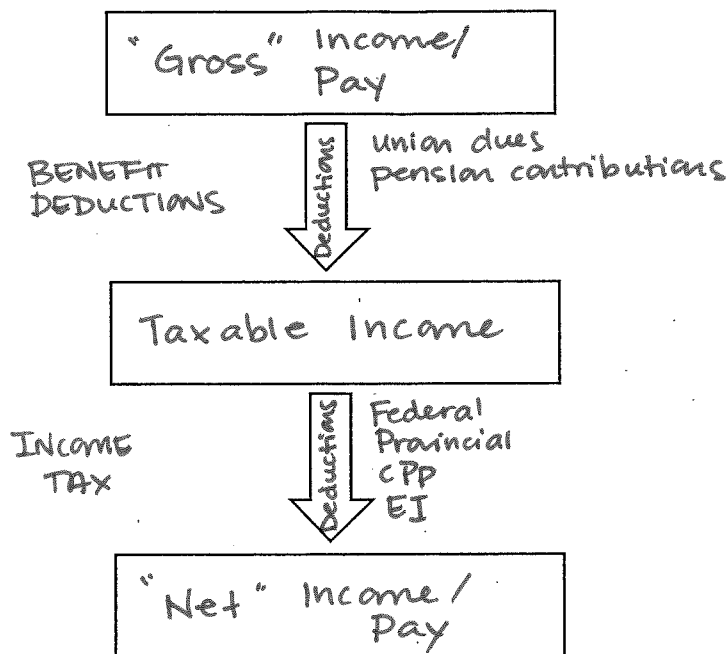
What is the difference between net income and taxable income? → income tax is paid on taxable income

net pay
"take home pay"
↓
income after all taxes and other deductions have been applied

↓
income after before-tax deductions have been applied

Deductions are amounts of money taken off of your gross pay.

Some examples of deductions are: federal/provincial tax, CPP, EI, union dues



Examples:

1. Kimberly's group life insurance is 1.5% of her salary of \$450.00 every two weeks. How much does she pay for group insurance?

$$1.5\% \text{ of } \$450.00$$

$$0.015 \times 450 = \$6.75$$

Kimberly pays \$6.75 for group insurance.

TRY IT!

If your federal tax rate is 15%, how much is deducted from your \$750.00 paycheque?

2. Jagar had a gross income of \$785.00. His net income was \$625.42. What percentage of his gross pay were his deductions?

$$785.00 - 625.42 = 159.58$$
$$\frac{\$159.58}{\$785.00} = 0.20 = 20\%$$

TRY IT!

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

3. 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.

Calculate Alphonso's taxable income by subtracting his union dues and his company's pension from his gross income.

① calculate the amount of his union dues and company pension.

$$2.5\% + 3\% = 5.5\%$$

$$5.5 \text{ of } \$852.00$$

$$0.055 \times 852 = \$46.86 \quad \text{subtract this amount from gross income to find taxable income}$$

$$852 - 46.86 = \$805.14$$

② Calculate the amount of taxes, CPP, and EI using his taxable

$$16.2\% + 5.4\% + 4.95\% + 1.8\% = 28.35\%$$

$$28.35\% \text{ of } \$805.14$$

$$0.2835 \times 805.14 = \$228.26 \quad \text{subtract this amount from taxable income to find Alphonso's net income}$$

$$805.14 - 228.26 = \$576.89$$

Alphonso's net income will be \$576.89