2.5 Net Pay & Deductions

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Net pay = take-home pay = final income after all deductions have been taken off

Deductions are amounts of money taken off your gross pay
  → income taxes
    - federal
    - provincial/territorial
  → union dues
  → disability insurance
  → (EI) employment insurance
  → (cpp) Canada Pension Plan
  → health/dental benefits

Taxable income = income taxes are only paid on your taxable income, after certain deductions are made

include:
  - union dues
  - company benefits + parking
  - company pension plan

Ex#1
- Life insurance of 1.5% of his salary of $450
- ? how much is he paying for life insurance?

\[
1.5/100 \times 450 = 0.015 \times 450
\]
1.5 \rightarrow \frac{1.5}{100} = 0.015 \times 450 = \$6.75 \text{ for life insurance per paycheque}

Ex. #2
- gross pay $785
- net pay $625.42
- ? deductions?

\[
\frac{785}{-625.42} = \frac{159.58}{785} \times 100% = 20.33% \]

cpp \rightarrow \text{Canada Pension Plan}
- you pay a small amount of $ from each paycheque so that you’ll receive a pension when you retire

Employment Insurance (EI)
- small amount of $ deducted each paycheque to help cover the cost of becoming unemployed

Ex. #3
- gross earnings are $500/week
- in 2008, the cpp contribution rate was 4.95% of any gross earnings above $3500
- the EI premium rate was 1.73% of gross earnings
(a) Calculate CPP deductions

1st find the basic pay period exemption that applies

\[ $3500 - 52 \text{ weeks} = $67.37 \text{ per week} \]

\[
\begin{array}{c}
\text{gross pay} \\
$500
\end{array}
\begin{array}{c}
- 67.37
\end{array}
\begin{array}{c}
\text{CPP rate of 4.95%}
\end{array}
\begin{array}{c}
\times 0.0495
\end{array}
\begin{array}{c}
\text{multiply by}
\end{array}
\begin{array}{c}
\$21.42
\end{array}
\begin{array}{c}
\text{CPP rate of 4.95%}
\end{array}
\begin{array}{c}
\text{multiply by}
\end{array}
\begin{array}{c}
\$21.42
\end{array}
\]

(b) Calculate EI deducted

\[
\begin{array}{c}
500 \text{ gross pay}
\end{array}
\begin{array}{c}
\times 0.0173
\end{array}
\begin{array}{c}
\text{EI rate of 1.73%}
\end{array}
\begin{array}{c}
\$8.65
\end{array}
\]

Deduction Tables

- Published by the government of Canada
- Helps determine how much taxes you pay
  - Federal
  - Social Programs
  - Politician salaries
  - Salaries / Supplies
  - For Canadian Armed Forces
  - Provincial
  - Road work
  - Teachers
  - Nurses
  - Hospital
Ex. #3 continued.

(c) Income tax? Claim code is 1

- TD1 form

$500 gross pay weekly

- personal tax credit return form

- determines the amount of income tax you pay

Provincial taxes

Federal taxes

$15.90 + $40.15 = $56.05

(d) Net pay?

\[
\begin{align*}
gross wages & \quad $500 \\
- CPP & \quad -$21.42 \\
- EI & \quad -$8.65 \\
- federal & \quad -$40.15 \\
- provincial & \quad -$15.90 \\
NET PAY & \quad $413.88
\end{align*}
\]