

Income and Deductions | MEL4E

Individuals commonly mistake net pay and take home pay with gross pay, but there are vast differences that should be understood. Net pay is the amount one receives after taxes and deductions have been withheld during a pay period.

Take Home Pay - Also called NET PAY is the money left over after deductions.

Deductions - Money taken away from your gross pay (taxes, union dues, etc.)

Gross Pay - Amount of money you are paid before deductions (hourly, salary, commission)

Taxable income	2016
\$11,475 - \$41,536	20.05%
\$41,537 - \$45,282	24.15%
\$45,283 - \$73,145	29.65%
\$73,146 - \$83,075	31.48%
\$83,076 - \$86,177	33.89%
\$86,178 - \$90,563	37.91%
\$90,564 - \$140,388	43.41%
\$140,389 - \$150,000	46.41%
\$150,001 - \$200,000	47.97%
\$200,001 - \$220,000	51.97%
Over \$220,000	53.53%

To calculate take home pay, just add all deductions and then subtract from gross pay:

$$\text{Net pay} = \text{Gross Pay} - \text{Deductions}$$

Taxes: We have to pay taxes before we take home our earned money. These come off our paycheck before it comes into our bank accounts. There are 4 key areas common to all paychecks (non-Quebec).

Tax	What is it?	Tax Rate (as a %)
CPP	Canada Pension Plan	4.95%
EI	Employment Insurance (lost job, maternity)	1.88%
Federal Tax	Used for national programs and infrastructure.	15%
Provincial Tax	Used for provincial programs	Varies on income

(Lowest is 5.05%)

Note: There are other deductions as well that vary from job to job. For our examples on the back, we will use the first bracket of taxable income (i.e. 15% federal tax, and 5.05% provincial tax).

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Example: Stephanie is a computer programmer and she works 35 hours per week. Stephanie gets paid 25\$ per hour. We will calculate her gross pay, and net pay in this example.

a) Calculate Stephanie's **gross pay**: $35 \times 25^{\$/\text{hour}} = \875

b) Complete the following table to calculate the amount of each paycheck deduction, and the total deductions.

$\div 100$

Deduction Type	Rate (%)	Tax Rate as a Decimal	Deduction Amount (Gross Pay x Decimal)
CPP	4.95%	0.0495	$875 \times 0.0495 = \$43.31$
E.I.	1.88%	0.0188	$875 \times 0.0188 = \$16.45$
Federal Tax	15%	0.15	$875 \times 0.15 = \$131.25$
Provincial Tax	5.05%	0.0505	$875 \times 0.0505 = \$44.19$
Total			$\$235.20$

c) Calculate Stephanie's **net pay**: $875 - 235.20 = \$639.80$ per week.

Example: Amy is a nurse and must work overtime on occasion. Amy's regular work week is 40 hours, but this week she worked 52 hours. Amy gets \$50 per hour on a normal shift, but makes 75\$ per hour overtime. $52 - 40 = 12$

a) Calculate Amy's **gross pay**: $40 \times 50^{\$/\text{hour}} + 12 \times 75^{\$/\text{hour}} = \$2,900$

b) Complete the following table to calculate the amount of each paycheck deduction, and the total deductions.

Deduction Type	Rate (%)	Tax Rate as a Decimal	Deduction Amount (Gross Pay x Decimal)
CPP	4.95%	0.0495	$2900 \times 0.0495 = \$143.55$
E.I.	1.88%	0.0188	$2900 \times 0.0188 = \$54.52$
Federal Tax	15%	0.15	$2900 \times 0.15 = \$435$
Provincial Tax	5.05%	0.0505	$2900 \times 0.0505 = \$146.45$
Total			$\$779.52$

c) Calculate Amy's **net pay**. $2900 - 779.52 = \$2,120.48$ this week.