

Section 1.3 – Deductions: Gross versus Net Pay

Deductions

GROSS PAY: Is your pay calculated before any deductions

NET PAY: Is your take home pay, the money you actually get paid

- Why aren't these the same?
 - Well we get money deducted from our paychecks
 - There are three main deductions that everyone gets:

Employment Insurance (EI): This is a fund we all pay into so if you ever get laid-off you can apply for EI, it pays you a percentage of your wage for a certain period of time

Canadian Pension Plan (CPP): This is a fund we all pay into so that generally when you turn 65 you start getting CPP Pension payments

These can change annually → **2017** **2018**

Canada/Quebec Pension	2017	2018
Annual Maximum Pensionable Earnings	\$55,300.00	\$55,900.00
Annual Basic Exemption	\$3,500.00	\$3,500.00
Annual Maximum Contributory Earnings	\$51,800.00	\$52,400.00
CPP Contribution Rate	4.95%	4.95%
QPP Contribution Rate	5.40%	5.40%
Annual Maximum CPP Employee Contribution	\$2,564.10	\$2,593.80
Annual Maximum CPP Employer Contribution	\$2,564.10	\$2,593.80
Annual Maximum QPP Employee Contribution	\$2,797.20	\$2,829.60
Annual Maximum QPP Employer Contribution	\$2,797.20	\$2,829.60

Employment Insurance (EI) - Non-Quebec Employee		
	2017	2018
Annual Maximum Insurable Earnings	\$51,300.00	\$51,700.00
Employee Contribution Rate	1.63%	1.66%
Employer Contribution Rate	2.282%	2.324%
Annual Maximum Employee Contribution	\$836.19	\$858.22
Annual Maximum Employer Contribution	\$1,170.67	\$1,201.51

Income Tax Provincial and Federal:

This is tax taken on your income by the Provincial and Federal Government and is based on your annual salary. It is combined and quite complicated, so reference the list below when making your calculations.

Taxable Income	Average Tax Rate
\$30 000	12.4%
\$40 000	14.3%
\$50 000	16.4%
\$60 000	18.4%
\$70 000	19.8%
\$80 000	20.8%
\$90 000	22.0%
\$100 000	23.4%
\$110 000	24.8%
\$120 000	26.1%
\$130 000	27.2%
\$140 000	28.2%
\$150 000	29.1%
\$200 000	33.3%
\$250 000	36.5%
\$500 000	43.1%

- So using the percentages above we can determine how much money gets deducted from our paycheck.

Example: Gwen’s annual income is \$62 000, her semi-monthly **GROSS pay** is \$2583. 33. It is her first paycheck of the year. How much money will get deducted for CPP, EI, Income Tax, and what is her NET pay?

Solution:

First we need to identify her tax brackets.

- Since she make \$62000
- Income Tax is: 18.40%
- For EI she will always pay my 1.66%
- For CPP she will always pay my 4.95%

Remember its percentage so:

18.4% → 0.184
 1.66% → 0.0166
 4.95% → 0.0495

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Income: $\$2583.33 \cdot 0.184 = \475.33

EI: $\$2583.33 \cdot 0.0166 = \42.88

CPP: $\$2583.33 \cdot 0.0495 = \127.87

Then add all the deductions together and subtract the total from the GROSS wage to get your NET.

$$\$475.33 + \$127.87 + \$42.88 = \mathbf{\$646.08}$$

$$\$2583.33 - \$646.08 = \mathbf{\$1937.25}$$

Gwen's NET pay is: $\$1937.25$

- There are other deductions that various jobs require to get deducted from your paycheck, but we will only focus on these 4.
- Can you figure this out another way?

Section 1.3 – Practice Problems

1. Steve makes \$120 000 annually, calculate his deductions from his semi-monthly paycheques.

2. Solace makes \$2450 Gross income bi-weekly, what is her annual salary? Use that info to calculate her deductions for her Net pay.

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3. If Simon had a deduction percentage of 27.2% what are the boundaries of his salary? Pick any annual salary in-between the boundaries and calculate the deductions and bi-weekly Net salary.

4. If Houssam has a semi-monthly Gross pay of \$5400, what is his annual salary and then calculate his deductions from his paycheck. What is his Net pay semi-monthly?

Section 1.3 – Answer Key

1. \$1635.50
2. \$47 768.63
3. *Boundaries are:*
\$130000 – 140000
Answer Will Vary
4. \$3633.66