

Unit 2

2.4 Deductions and Net Pay

David Guenther

Objective

To bring the unit together to form a cohesive understanding of a paycheck.

Definitions

net pay: the money that you actually see on the paycheck

benefits: Extra stuff you get that isn't monetary (like dental coverage)

Taxable income: money that is taxed.

Start

Intro

So you've learned a lot about wages, salaries, and other ways to get money, but how do you bring it all together? What actually happens before you get that first paycheck and frame it on the wall?

That final paycheck

You may have come to realize so far that all the money you make doesn't exactly go into your pocket. There are other factors involved as well.

Your employer, may take of some money from your final price

[Online Calculator for deductions](#)

[CPP and EI rates](#)

Lets say I made 4000 dollars working for my uncle. Now not all of that money is mine, because the government will take some for Employment Insurance (money for those people who don't have a job), Canada pension plan (the money you get when you retire), Federal and Provincial Taxes.

So here's how those are calculated.

Employment Insurance

EI is quite easy: it is 1.88% of your paycheck. Remember how to work with percentages? Its some number over 100. But this applies to each paycheck, so if I made 1000 dollars bi-monthly, (

$$1000 \times 4 = 4000$$

) we would calculate for that amount

So 1.88% of 1000 is

$$\frac{1000}{1} \times \frac{1.88}{100} = 18.8$$

One final note: there is a limit for how much you can pay into employment insurance in a year: 891.12. If you reach this you stop deducting for EI.

Canada Pension Plan

The Canada Pension Plan is a little more complex. There is a basic exemption of 3,500 dollars, which means that you have to make more then this in order to pay into the plan. Now making 3,500 dollars in a year is not hard in Canada (assuming your working somewhere), but we have to take this amount and subtract it from our paycheck.

So if each paycheck I get is bi-monthly, and I work for 2 months, I need to take 3,500, and divide by 4

$$\frac{3500}{4} = 875$$

So for each paycheck of 1000 dollars, I need to take away 875

$$1000 - 875 = 125 \text{ dollars}$$

now we take the percentage of that amount for CPP (which is 4.95%)

$$\frac{125}{1} \times \frac{4.95}{100} = 6.19$$

Federal Tax and Provincial Tax

Federal tax works by seeing how much you made, and then taxing you on that. To do this we look it up in a table

Federal Tax Chart

For my income this would be harder to calculate, because it gets quite complex, but lets assume I was working full time.

We would look up how much I made on each paycheck.

There are claim amounts on the side that decide how much to tax you. The more you spend on being a student and other things, the government taxes you less.

So lets say my federal claim code is 4, and my provincial claim code is 2.

When I look these up in the chart:

Federal = 31.30

Provincial = 27.95

Final result

Now I need to add both numbers together to find my paycheck.

Paycheck - CPP - EI - Federal - Provincial, which is

$$1000 - 6.19 - 18.8 - 31.30 - 27.95 = 915.76$$

Booya!

Example 1

pg. 81

Example 2

pg. 82

Assignment

pg. 87: 1 - 8