FMP10 Name: ____________________________
Date: ____________________________

Unit 7: Personal Finance
7.2A Net Income Part 1

Net Income: Gross Income – Deductions

- "take-home pay"

Note: for the purpose of practice questions a certain set of values will be used. Current values are always changing.

Main deductions:

1) CPP – Canada Pension Plan
- Provides some income after retirement
- Approx. 3.2% of gross annual income exceeding $3500 [current rate is 4.95%; current exemption $3500]
- Maximum annual CPP contribution $1068.80 [current max $2564.10]
- Only paid by employees 18 years of age or older

2) EI – Employment Insurance
- Provides some income during periods of unemployment (caused by no fault of the individual) to eligible applicants
- Need to have accumulated between 420 and 700 hours of insurable employment during a 52 week period preceding unemployment to be entitled to receive EI regular benefits.
- Approx. 2.7% of gross income [current 1.63%]
- Maximum annual EI contribution (premium) $1053 [current $836.19]

Ex. Michelle's gross income is $1400 bi-weekly. Calculate her CPP and EI deductions for each pay period.

26 pay periods

CPP

Annual

1400 × 26
= $ 36400
− 3500

3.2 % of $ 32,900

0.032 (32,900)

= $ 1052.80 ← over max?

annual

NO

$\frac{1052.80}{26} = \boxed{\$\ 40.49 \text{ biweekly}}$

EI

2.7% of $36400

0.027 (36 400)

$ 982.80 ← over max?

NO

$\frac{982.80}{26} = \boxed{\$\ 37.80 \text{ biweekly}}$

3) Income Tax – federal & provincial

- Revenue for government to pay for services
- Depends on income & tax credits (tax free dollars)
- Calculated only on taxable income (will look at how this is calculated in Part 2)
- Use tax table to calculate

Ex. Steve has an annual taxable income of $60,000. Calculate his federal tax.

1. 29590(0.17)
   \$ 5030.30

2. 29590(0.26)
   \$ 7693.40

3. 820(0.29)
   \$ 237.80

60000
− 59180
\$ 820

+ +

$\boxed{\$\ 12961.56}$

Note: the actual amount paid in federal tax (called Basic Federal Tax will be less due to Tax Credits)

Provincial Tax is calculated as a percentage of Basic Federal Tax (use Provincial Tax Table)

Ex. Kim, who lives in BC, has a basic federal tax of $11590. What is her provincial tax payable?

50.5%

0.505(11590)

$= \boxed{\$\ 5852.95}$

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