FMP10 Name: ____________________________
Date: ____________________________

Unit 7: Personal Finance
7.2B Net Income Part 2

Annual Taxable Income = annual gross income – tax exempt deductions

- The amount used to calculate income tax
- Tax exempt deductions include union/professional dues, RRSP (Registered Retirement Savings Plan) contributions, and RSP (Registered Retirement Plan) contributions.

Ex. Rebecca earns $2000 semi-monthly. Each pay period she pays $25 in union dues and contributes $100 to an RRSP.

a) Calculate her annual taxable income.

Annual Gross $= 24(2000) = \$48000$

Taxable $= 48000 - 24(125)$
$= \$45000$

b) Use the federal tax table to determine her federal tax in a year.

$0.17(29590) + 0.26(15410)$

$45000 - 29590$

$= \$9036.90$

The Federal Tax Table is used in the calculation of federal income tax but is not equal to the actual federal tax payable (called Basic Federal Tax)

Basic Federal Tax = Federal Tax – 17% of Tax Credits (currently 15% of tax credits)

Tax Credits
- Everyone receives a basic personal tax credit (currently min. $11474) but the total amount of tax credits varies due to several reasons. CPP & EI contributions are also added to the basic credit
- The basic credit can be more for a variety of reasons & other expenditures may also increase your total tax credits.

c) If Rebecca (above) had $9000 in total tax credits what is her Basic Federal Tax (payable) for the year?

$\$9036.90 - 0.17(9000)$

Basic Federal Tax $= \boxed{\$7506.90}$

Ex. John's gross annual income is $37,000. In addition to CPP and EI he has annual deductions of $1200 to an RRSP, $480 in union dues, and $600 to a private medical plan. If he lives in Alberta and has a basic personal tax credit of $6456, what is his net annual income.

1) CPP 3.2% of annual gross above $3500

   37000
   − 3500
   $33500

   0.032(33500) = $1072 over max

   $1068.80

2) EI 2.7% of annual gross

   0.027(37000) = $999

3) Annual taxable income = gross annual – tax-exempt deductions (RRSP, union)

   = 37000 − 480 − 1200
   = $35,320

   * private medical is not tax exempt

4) Federal tax using table

   0.17(29590) + 0.26(5730)

   5730 = 35320 − 29590

   = $6520.10

5) Tax credits = basic personal tax credit + CPP + EI

   = 6456 + 1068.80 + 999
   = 8523.80

6) Basic Federal Tax = federal tax – 17% of tax credits

   = 6520.10 − 0.17(8523.80)
   = $5071.05

7) Provincial tax Alberta = 45.5% of basic federal tax

   0.455(5071.05)
   = $2307.33

8) Total deductions = total tax + CPP + EI + other deductions (RRSP, union, medical)

   = 5071.05 + 2307.33 + 1068.80 + 999 + 1200 + 480 + 600
   = $11,726.18

9) Net annual income = Gross annual income – total deductions

   37000 − 11726.18 = $\boxed{\$25,273.82}$

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