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, RSP (Registered Retirement Plan) contributions, and RESP (Registered Education Savings 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.

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

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?

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

2) EI 2.7% of annual gross

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

4) Federal tax using table

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

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

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

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

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

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