

Name: _____

Unit 3 – Finance

3.6 – Payroll Deductions

Definitions

Taxable Income – the amount of income on which you pay tax (is usually smaller than your gross pay).

Overview

- Sums of money taken off of your gross pay are called **deductions**.
- Canada Pension Plan (**CPP**), Employment Insurance premiums (**EI**) and income tax (**IT**) are deductions required by Canadian law.
- These deductions are used for the following purposes:

CPP – pay citizens an income after they are 65 years old.

EI – provide an income replacement if you lose your job.

IT – pay for government expenses (building & maintaining roads, schools, hospitals, etc).

- Some deductions, such as group insurance, union dues, health care and company benefits, are mandatory
- Other deductions, such as charitable donations of Registered Pension Plans (RPP), are voluntary.
- When an employee begins working at a job, they fill out a TD1 form that identifies whether they are able to claim certain deductions that reduce their taxable income.
- The amount of these deductions determines an employee’s claim code and tells his or her employer how much income tax to deduct from their gross pay
- Expenses for child care, caring for an elderly or ill person, number of dependents and charitable contributions, allow an employee to claim a higher claim code

Examples

Use the data tables provided to help answer the following questions.

1. Determine the amount of **CPP** deducted for the following gross incomes.

- a) \$361.98 b) \$385.82 c) \$388.50 d) \$411.01

2. Determine the amount of **EI** deducted for the following gross incomes.

- a) \$370.92 b) \$384.64 c) \$452.47 d) \$476.15

3. Determine the amount of **federal IT** deducted for the following net incomes (*claim codes are in the brackets*).

- a) \$350 (2) b) \$412 (5) c) \$513 (8) d) \$548 (3)

4. What range of incomes would result in paying the following amounts of **EI**?

- a) \$7.32 b) \$5.97 c) \$8.06 d) \$6.90

5. Determine the amount of **federal IT** deducted from the following taxable incomes (claim codes in brackets).

- a) \$398 (2) b) \$384 (4) c) \$484 (6) d) \$454 (7)

- e) \$436 (1) f) \$350 (4) g) \$402 (0) h) \$485 (5)

6. What range of incomes would result in paying the following amounts of **federal IT** (claim codes in brackets).

- a) \$6.25 (5) b) \$17.75 (1) c) \$4.40 (7) d) \$5.25 (4)

7. Determine the amount of **provincial IT** deducted from the following taxable incomes (claim codes in brackets).

- a) \$436 (4) b) \$400 (0) c) \$434 (5) d) \$420 (2)

- e) \$450 (5) f) \$416 (4) g) \$356 (1) h) \$438 (3)

8. What range of incomes would result in paying the following amounts of **provincial IT** (claim codes in brackets).

- a) \$8.10 (1) b) \$1.05 (4) c) \$1.25 (5) d) \$4.40 (3)