

Gross and Net Pay

Specific Expectation(s):

- A2.3 describe the relationship between gross pay, net pay, and payroll deductions (i.e., net pay is gross pay less government payroll deductions and any other payroll deductions), and estimate net pay in various situations
- A2.2 estimate and compare, using current secondary data (e.g., federal tax tables), the percent of total earnings deducted through government payroll deductions for various benchmarks (e.g., \$15 000, \$20 000, \$25 000)

The total amount of money that the employer is giving to “you” is called **gross pay**.

Your paycheque will not be for this full amount because there are **deductions** on each paycheque.

- **Deductions** are amounts *subtracted* from your paycheque before it’s given to you.

Your paycheque after deductions is called **Net Pay**.

Questions

Here is a picture of someone’s paystub:

SUMMARY	
GROSS PAY	3502.02
TOTAL DEDUCTIONS	1560.88
NET PAY	1941.14

1. What % of their gross pay was deducted?

2. What % of their gross pay do they actually get in their bank account?

The most common deductions for employees, which are the ones we'll focus on today, are:

Income Tax

- Percentage of your total pay that is taken by the provincial and federal governments
- The actual percentage depends on your annualized salary → higher salaries get more % taken

CPP (Canada Pension Plan)

- Percentage of your total pay that is taken and put into a fund that promises to pay you money in your retirement

EI (Employment Insurance)

- 1.66% of your paycheck is deducted and put into "employment insurance"
- This plan pays you some money IF you lost your job through no fault of their own (for example, due to shortage of work, or seasonal / mass lay-offs)
- To get payments from EI, you must be available for and able to work, but unable to find a job.

Federal Income Tax

Income tax in Canada is **bracketed**, which means you pay different amounts on different dollars earned.

- Your first dollars are taxed the least
- Dollars earned beyond about \$250,000 are taxed the most

Because the early dollars are taxed least, the system is also called **progressive taxation**.

Uniform taxation would be if every dollar was taxed exactly the same amount

Your first \$15,705 earned dollars are NOT TAXED

[in year 2024]

Then, up to \$55,867 of taxable income, you pay 15%

Then, between \$55,867 and \$111,733, you pay 20.5%

Then, between \$111,733 and \$173,205, you pay 26%

Then, between \$173,205 up to \$246,752, you pay 29%

Then, on any taxable income exceeding \$246,752, you pay 33%.

Let's take a look:

3. You earn \$10,000 at a summer job.

a) How much federal income tax do you pay?

b) What % of your income is going towards tax?

4. You earn \$20,000 working for a semester.
- a) How much federal income tax do you pay?
- b) What % of your income is going towards tax?

[Number 5, below, is too challenging for a test]

5. You earn \$60,000 during your first year of work.
How much federal income tax do you pay?

Realistically, you can trust the **payroll department** of your employer to do this correctly.

- If your payroll deducts *not enough* tax from your paycheques, you'll end up owing money when you "do your taxes".
- If your payroll deducts *too much* tax from your paycheques, you'll end up getting a **tax refund** when you "do your taxes".

