

Feb. 24

Unit 2- Net Earnings

Lesson 2.1 Deductions from Pay

There is often a large gap between the gross pay you earn and the actual amount of net pay you take home. Different places of employment have different kinds of deductions. When applying to work somewhere, you should always ask about mandatory and optional deductions from your pay. must your choice

Some common deductions include parking, dental plan, medical insurance, social fund, coffee or water fund, and union dues. Depending on where you are employed, these may or may not be mandatory. You also might be offered an opportunity to have RSP (Retirement Savings Plan) or Canada Savings Bond contributions deducted off your gross pay. Not every place of employment has these deductions.

The basic three, CPP, EI, and income tax deductions, are deducted from everyone's paycheque.

↳ Canadian Pension Plan → Employment Insurance.

Union Dues

In some work places, the employees belong to a union. The union negotiates the level of pay, working conditions, holidays, and other benefits. If you accept a job offer at a place where the workers are unionized, you will have union dues subtracted from your gross pay.

Medical or Dental Plan

It is helpful to belong to a medical or dental plan that covers all or most of your prescription, ambulance, or dental costs, but this coverage is not free. You have to pay to belong to such a plan, and that cost is deducted from your gross pay. The amount of the deduction is dependent on whether you are single or have a family, and on the extent of the coverage. The plans that offer to pay a smaller percentage of your medical or dental costs usually require lower contributions from employees.

Parking

Those parking lots behind places of business are expensive to maintain. Such items as paving, snow removal, and electrical outlets can be quite costly for the business. Many businesses expect a parking fee from their employees. This fee would also be deducted from your gross pay. Usually, the parking stalls which include a plug for your vehicle during the cold winter months are more expensive than the spots without the electrical option. Normally, this deduction is optional, depending on whether or not you need to drive to and from work.

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Coffee or Water Fund

Those big bottles of water and the dispenser they sit upon are not free. Somebody has to pay for them. Also, many offices will operate a coffee fund, where employees contribute money to buy the necessary supplies. These deductions are only applied to those workers who drink the water or the coffee. Workers usually contribute a given amount in cash and such a contribution would not be taken off your gross pay. But, it is still a cost of working at that business.

Social Fund

If you are working with a large group of people, chances are very good that one or more of them will be getting married, will have children, or will suffer an illness. In this event, your work's social committee will send flowers or a small gift on behalf of all of the employees. Your contribution to the social fund normally would not be taken off your cheque, but would be given as a cash contribution. This contribution is not mandatory.

Uniforms

Many workplaces demand that employees wear items like steel-toed boots, or coveralls, or dress pants and shirts of a certain colour. Generally you will have to provide these items at your own expense. Some companies provide you with a uniform, and deduct that cost from your paycheque. These are costs of working there, and must be considered before accepting a job.

Tools

People do not like to share their tools. If you lend your tools, they might get broken or even disappear. If you are looking at working on a job site that uses tools, be sure to check out what tools you are expected to provide. If you need to provide all your tools, purchasing them could be costly at the outset of a new job. Although these costs are not deducted from your gross pay, they are "up-front" costs that will affect how much money you will make working at such a workplace.

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Finding Net Pay

Simply stated, net pay is what is left of your gross pay after all the deductions have been subtracted.

$$\text{Net Pay} = \text{Gross Pay} - \text{Deductions}$$

To calculate your net pay, or what many call take-home pay, you could follow these steps:

Step 1: Determine your gross pay.

Step 2: Determine your total deductions.

Step 3: Determine your net pay by subtracting the total deductions from your gross pay.

(Your net pay is the amount on your pay cheque)

Example 1

Gary works at a bus manufacturing plant. He is paid \$13.70 per hour, with time and one-half paid on all hours worked over 40 per week. Last week he worked 43 hours. His deductions include the following:

Union dues \$2.90
Parking \$3.50
CPP \$26.85
EI \$10.55
Federal income tax \$82.45
Provincial income tax \$62

Deductions

We need to add up
all of these

← Total = \$188.25

How much was Gary's net pay?

$$\text{Net Pay} = \text{Gross Pay} - \text{Deductions}$$

$$\text{Net Pay} = \underline{\$609.65} - \underline{\$188.25}$$

$$\text{Net Pay} = \underline{\underline{\$421.40}}$$

GROSS PAY

$$\text{Reg.} \rightarrow 40 \text{ hr} \times \$13.70 = \underline{\$548.00}$$

$$\text{Overtime} \rightarrow \$13.70 \times 1.5 = \underline{\$20.55/\text{hr}}$$

$$3 \text{ hr} \times \$20.55 = \underline{\$61.65}$$

$$\text{Total Gross} = \underline{\underline{\$609.65}}$$

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Example 2

Laurel accepts a position in a large firm as an executive assistant. She will be paid a monthly salary of \$2950. The firm charges her \$5.25 per week for parking. She contributes \$2 per week to the social fund. Laurel's weekly deductions include CPP \$30.37, EI \$11.78, federal income tax \$92.55, and provincial income tax \$70.65. Find Laurel's net pay.

Total weekly deductions:

parking - 5.25
social - 2.00
CPP - 30.37
EI - 11.78
F.I.T - 92.55
P.I.T = 70.65
\$212.60

#1 Weekly Net Pay

$$2950 \div 4.33 = \$680.77 \text{ Gross Pay Per Week}$$
$$\text{Net} = 680.77 - 212.60$$
$$= \$468.17 \text{ per week}$$

#2 Monthly Net Pay

$$212.60 \times 4.3 = \$921.27$$
$$\text{Net} = 2950 - 921.27$$
$$= \$2028.73 \text{ per month}$$

Unit 2.1 - Deductions from Pay Practice

1. Sam works for a seed company that pays him \$11.88 per hour. He worked 32 hours last week. His deductions include CPP \$15.49, EI \$6.58, and income taxes of \$50.80 and \$38.55. He also contributes \$2 per week to the water fund. Find his net pay.

$$\text{Net} = \text{Gross} - \text{Deductions}$$

$$\text{Net} = 380.16 - 113.42$$

$$\boxed{\text{Net} = \$266.74}$$

2. Betty is paid a salary of \$2775 per month as a clerk. Her weekly deductions include \$5 for parking, \$12.68 for a dental plan, CPP \$28.37, EI \$11.08, and income taxes of \$86.95 and \$65.85. Find her weekly net pay.

$$\text{Net} = \text{Gross} - \text{Deductions}$$

$$\text{Net} = 640.38 - 209.93$$

$$\boxed{\text{Net} = \$430.45}$$

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3. David sells cars and is paid strictly on a commission of 14% of total sales. Last week, he sold two cars worth a total of \$42,000. His deductions include CPP \$33.05, EI \$12.72, and income taxes of \$100.35 and \$77.40. He contributes \$5 per week to the social fund. Find his net pay.

$$\text{Net} = 5880.00 - 228.52$$

$$\boxed{\text{Net} = \$5651.48}$$

4. Chad is a real estate salesman, earning 1 ½ % commission on all his sales. ^{Annual} Last year, he sold 12 houses with a total value of \$2,550,000. On average, his weekly deductions were CPP \$33.08, EI \$12.73, and income taxes of \$100.35 and \$77.40.

- a) Find Chad's average weekly earnings.

$$\begin{array}{r} \text{Gross Pay!} \\ \hline \boxed{\$735.58} \end{array}$$

- b) Find Chad's weekly net pay.

$$\text{Net Pay} = 735.58 - 223.56$$

$$\boxed{\text{Net} = \$512.02}$$

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5. Jocelyn earns \$17.32 per hour, with any hours over 40 per week being paid at time and one-half. Last week, she worked 47.25 hours. Her deductions include union dues of \$2.85, parking \$4, CPP \$ 40.29, EI \$15.24, and income taxes of \$129.95 and \$94.80.

- a) Find her gross pay.

$$\boxed{\$881.16}$$

- b) Find her net pay.

$$\text{Net} = 881.16 - 287.13$$
$$\boxed{\text{Net} = \$594.03}$$

6. Eric receives a basic weekly salary of \$225, and 3% commission on all sales. Last week, his sales totaled \$10,235. His deductions include \$3.50 for the water fund, CPP of \$23.01, EI \$9.20, and income taxes of \$72.10 and \$53.70. Eric also contributes \$3 per week to the coffee fund, and \$1 to the social committee.

- a) Find his gross pay.

$$\boxed{\$532.05}$$

- b) Find his net pay.

$$\text{Net} = 532.05 - 165.51$$
$$\boxed{\text{Net} = \$366.54}$$