## Lesson 2.4 Income Tax

Governments, both provincial and federal, need revenue to build and maintain roads, fund the military, and run hospitals, among other things. Most of this income comes from taxes.

Income tax is exactly what it says, it is a tax on income. The more money you earn, the more income tax you pay.

The federal government uses revenue to fund the military, the RCMP, immigration, national parks, and passports. The provincial governments require revenue to fund hospitals, universities, schools, roads, and tourism.

There wasn't always a tax on income in Canada. In the early 1900s, the government of the day wanted to encourage immigration, so they never required an income tax. But, when World War I started, the government needed money to outfit the military. So, in 1917, the income tax was introduced as a temporary measure, strictly to fund the costs of being at war. The debt just kept rising, and the government couldn't afford to stop taxing the income of Canadians.

In this course, basic calculations using tables and formulas to find the income tax deductions are to be done. There are more detailed rules and regulations as to what is not taxed, like union dues or RSP contributions but these are beyond the scope of this course.

## Using Income Tax Tables

The following is a portion of the January 2009 income tax tables.

Federal tax deductions
Effective January 1, 2009
Weekly (52 pay periods a year)

| Pay | | | Federal claim codes | | | | | | | | | |
|-----|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| From | | Less than | deduct | | | | | | | | | |
| 555 | - | 563 | 75.75 | 46.50 | 43.75 | 38.05 | 32.40 | 26.70 | 21.00 | 15.30 | 9.65 | 3.95 |
| 563 | - | 571 | 76.85 | 47.70 | 44.90 | 39.20 | 33.50 | 27.80 | 22.10 | 16.45 | 10.75 | 5.05 |
| 571 | - | 579 | 78.00 | 48.85 | 46.00 | 40.30 | 34.60 | 28.95 | 23.25 | 17.55 | 11.85 | 6.20 |
| 579 | - | 587 | 79.10 | 49.95 | 47.10 | 41.45 | 35.75 | 30.05 | 24.35 | 18.70 | 13.00 | 7.30 |

The various claims codes, numbered 0 through 9, represent the level of taxation at which you will be assessed. The claim code is established when you first start working at a business. If you have no dependents, you are assessed at the lowest level, claim code 0. If you have dependents, RSP contributions, and education deductions, you will be assigned a higher claim code designation, and will pay less income tax. The claim code designation needs to be known before the tax can be determined.

## Example 1

Find the amount of federal income tax deducted if the gross pay is $574.82 and the claim code is 2.

$46.00

Note that the Manitoba provincial tax tables are read in exactly the same manner.

## Example 2

Find the amount of federal income tax payable on earnings of $567.75, claim code 4.

$33.50

## Using the Income Tax Formula

When calculating the income tax deduction from gross pay, you must use the federal and the provincial tables to get the exact amount of deductions. Using the formula gives a realistic but not an exact amount.

When tables are not handy, you could use a formula to estimate the amount of income tax that will be deducted from your gross pay. Your answer will not be as precise as when you use the tables, but the formula method gives a good estimation of what you must pay.

The formula method uses marginal tax rates based on the level of your annual gross income. The federal rates, effective January 1, 2018, are summarized below, rounded to the nearest dollar.

Federal Marginal Rates, 2018

*For the year*

Any annual income from $0 to $46 605 : 15%
plus any annual income from $46 605 to $93 208 : 20.5%
plus any annual income from $93 208 to $144 489 : 26%
plus any annual income from $144 489 to $205 842 : 29%
plus any annual income over $205 842 : 33%

Remember that you must also pay income tax to the province.
Manitoba's marginal rates for 2009 are listed below, rounded to the nearest dollar.

Manitoba Marginal Rates, 2018
Any annual income from $0 to $31 000 : 10.8%
plus any annual income from $31 000 to 67000 : 12.75%
plus any annual income over $67000 : 17.4%

The combined amount of federal and provincial income tax is deducted from your gross pay.

## Example 1

You anticipate earning $15 per hour, and you plan on working 35 hours. Use the marginal rates above to calculate how much will be deducted off your gross pay in federal and provincial income tax each week

weekly → $15/h × 35 = $525

year → $525/week × 52 = $27300

Federal → $525 × 0.15 = $78.75

Provincial → $525 × 0.108 = $56.70

## Example 2

Mrs. Brown earns $55,000 a year as an administrator. Use the federal and provincial marginal rates to estimate her [annual income tax.] Federal + Provincial

Federal → $46 605 × 0.15 = $6990.75

$$55000 - 46605 = \$8395$$

$$\$8395 \times 0.205 = \$1720.98$$

Total Fed = 6990.75 + 1720.98 = $8711.73

**Provincial**

→ $31000 × 0.108 = $3348

$$\$55000 - \$31000 = \$24000$$

$$24000 \times 0.1275 = \$3060$$

Total Prov. = $3348 + $3060 = $6408

## Example 3

Total Income Tax = $8711.73 + $6408 = $15119.73

Using the information from Example 2 above, calculate the percent rate of income tax Mrs. Brown pays altogether.

$$\frac{taxes}{total\ income\ (gross\ pay)} = \frac{\$15119.73}{\$55000} = 0.275$$

× 100 (for percent)

$$\boxed{27.5\%}$$

27.5% of her gross pay is being paid to the government as income tax.

## Unit 2.4 – Income Tax Practice

1.  Use the 2009 weekly federal tax deduction tables to find the federal income tax owing on these weekly earnings.

Federal tax deductions
Effective January 1, 2009
Weekly (52 pay periods a year)
Also look up the tax deductions
in the provincial table

| Pay Rémunération | | Federal claim codes | | |
| --- | --- | --- | --- | --- |
| | | 0 | 1 | 2 |
| From De | Less than Moins de | Deduct from each pay Retenez sur chaque paie | | |
| 669 | - 677 | 89.20 | 30.90 | 25.25 |
| 677 | - 685 | 90.30 | 32.05 | 26.35 |
| 685 | - 693 | 91.40 | 33.15 | 27.45 |
| 693 | - 701 | 92.55 | 34.25 | 28.60 |
| 701 | - 709 | 93.65 | 35.40 | 29.70 |
| 709 | - 717 | 94.80 | 36.50 | 30.80 |
| 717 | - 725 | 95.90 | 37.65 | 31.95 |
| 725 | - 733 | 97.00 | 38.75 | 33.05 |
| 733 | - 741 | 98.15 | 39.85 | 34.20 |
| 741 | - 749 | 99.25 | 41.00 | 35.30 |

a)  $710, claim code 1  $ 36.50

b)  $680.25 claim code 0  $90.30

c)  $745.98, claim code 2  $ 35.30

2. Use the 2009 weekly Manitoba provincial tax deduction tables to find the provincial income tax owing on these earnings.

Manitoba provincial tax deductions
Effective January 1, 2009
Weekly (52 pay periods a year)
Also look up the tax deductions
in the federal table

| Pay Rémunération | | Provincial claim codes | | |
|---|---|---|---|---|
| | | 0 | 1 | 2 |
| From De | Less than Moins de | Deduct from each pay Retenez sur chaque paie | | |
| 653 | - 661 | 67.75 | 50.85 | 49.10 |
| 661 | - 669 | 68.70 | 51.80 | 50.05 |
| 669 | - 677 | 69.70 | 52.80 | 51.05 |
| 677 | - 685 | 70.65 | 53.75 | 52.00 |
| 685 | - 693 | 71.60 | 54.70 | 52.95 |
| 693 | - 701 | 72.55 | 55.65 | 53.90 |
| 701 | - 709 | 73.55 | 56.65 | 54.85 |
| 709 | - 717 | 74.50 | 57.60 | 55.85 |
| 717 | - 725 | 75.45 | 58.55 | 56.80 |
| 725 | - 733 | 76.40 | 59.50 | 57.75 |
| 733 | - 741 | 77.40 | 60.50 | 58.70 |
| 741 | - 749 | 78.35 | 61.45 | 59.70 |
| 749 | - 757 | 79.30 | 62.40 | 60.65 |
| 757 | - 765 | 80.25 | 63.35 | 61.60 |
| 765 | - 773 | 81.20 | 64.35 | 62.55 |

a)   $710, claim code 1   $57.60

b)   $680.25 claim code 0 $70.65

c)   $745.98, claim code 2 $59.70

3. Use your results from #1 and #2 above to find the combined federal and provincial income tax owing on these weekly earnings.

| Income | Claim Code | Federal | Provincial | Total |
|--------|-----------|---------|-----------|-------|
| $710 | 1 | $36.50 | $57.60 | $94.10 |
| $680.25 | 0 | $90.30 | $70.65 | $160.95 |
| $745.98 | 2 | $35.30 | $59.70 | $95.00 |

4. Kate works at a credit union and is paid $12.65 per hour. Any hours worked over 40 in a week are paid at time and one-half. She worked 44.5 hours last week. Use the tables to find her CPP, EI, and income tax deductions, and calculate her net pay if her claim code is O.

## Canada Pension Plan Contributions
### Weekly (52 pay periods a year)

| Pay Rémunération | | CPP RPC | Pay Rémunération | | CPP RPC |
|------------------|--------|---------|------------------|--------|---------|
| From - De | To - Á | | From - De | To - Á | |
| 590.84 | 591.03 | 25.92 | 605.39 | 605.58 | 26.65 |
| 591.04 | 591.23 | 25.93 | 605.59 | 605.78 | 26.65 |
| 591.24 | 591.44 | 25.94 | 605.79 | 605.98 | 26.66 |
| 591.45 | 591.64 | 25.95 | 605.99 | 606.18 | 26.67 |
| 591.65 | 591.84 | 25.96 | 606.19 | 606.39 | 26.68 |
| 591.85 | 592.04 | 25.97 | 606.40 | 606.59 | 26.69 |
| 592.05 | 592.24 | 25.98 | 606.60 | 606.79 | 26.70 |
| 592.25 | 592.45 | 25.99 | 606.80 | 606.99 | 26.71 |
| 592.46 | 592.65 | 26.00 | 607.00 | 607.19 | 26.72 |

Gross pay = $591.39

Deductions = $176.52

Net Pay = $414.87

## Employment Insurance Premiums

| Insurable Earnings Rémunération assurable | | | EI premium Cotisation d'AE |
|---|---|---|---|
| From - De | | To - Á | |
| 588.16 | - | 588.72 | 10.18 |
| 588.73 | - | 589.30 | 10.19 |
| 589.31 | - | 589.88 | 10.20 |
| 589.89 | - | 590.46 | 10.21 |
| 590.47 | - | 591.04 | 10.22 |
| 591.05 | - | 591.61 | 10.23 |
| 591.62 | - | 592.19 | 10.24 |
| 592.20 | - | 592.77 | 10.25 |
| 592.78 | - | 593.35 | 10.26 |

Federal tax deductions
Effective January 1, 2009
Weekly (52 pay periods a year)
Also look up the tax deductions
in the provincial table

| Pay Rémunération | | | Federal claim codes | | |
|---|---|---|---|---|---|
| | | | 0 | 1 | 2 |
| From De | Less than Moins de | | Deduct from each pay Retenez sur chaque paie | | |
| 555 | - | 563 | 75.75 | 46.60 | 43.75 |
| 563 | - | 571 | 76.85 | 47.70 | 44.90 |
| 571 | - | 579 | 78.00 | 48.85 | 46.00 |
| 579 | - | 587 | 79.10 | 49.95 | 47.10 |
| 587 | - | 595 | 80.20 | 51.10 | 48.25 |

Manitoba provincial tax deductions
Effective January 1, 2009
Weekly (52 pay periods a year)
Also look up the tax deductions
in the federal table

| Pay Rémunération | | | Federal claim codes | | |
|---|---|---|---|---|---|
| | | | 0 | 1 | 2 |
| From De | Less than Moins de | | Deduct from each pay Retenez sur chaque paie | | |
| 573 | - | 581 | 58.50 | 41.60 | 39.85 |
| 581 | - | 589 | 59.30 | 42.45 | 40.65 |
| 589 | - | 597 | 60.15 | 43.25 | 41.45 |
| 597 | - | 605 | 61.00 | 44.10 | 42.35 |
| 605 | - | 613 | 62.00 | 45.10 | 43.35 |

**Federal Marginal Rates, January 1, 2018**
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plus any annual income from $144 489 to $205 842 : 29%.
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**Manitoba Marginal Rates, 2018**
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plus any annual income from $31,001 to $67,000: 12.75%
plus any annual income over $67,000: 17.4%

**EI and CPP Deductions**
The CPP contribution is 4.95% of gross pay to a maximum of $2118.60 per year.
The EI contribution is 1.73% of gross pay to a maximum contribution of $731.79 per year.

5. Peter is paid $28,000 gross per year. Calculate his federal and provincial income tax deductions, his CPP and EI deductions, and his net pay.

Deductions = $9094.40

Net Pay = $18905.60

6. Marie makes $40,000 gross per year. Calculate her federal and provincial income tax deductions, her CPP and EI deductions, and her net pay.

Deductions Total = $13 167.50

Net Pay = $26 832.50

7.  Bradley earns an 8% commission on all his sales of agricultural equipment. Last year Bradley sold $1,200,000 of agricultural equipment. Calculate his gross pay, his federal and provincial income tax deductions, his CPP and EI deductions, and his net pay.

Gross Pay = $96000

Deductions Total = $33 104.70

Net Pay = $62 895.30

8.  Sally is an interior designer and earned $235,000 gross last year. Calculate her gross pay, her federal and provincial income tax deductions, her CPP and EI deductions, and her net pay.

Gross Pay = $235 000

Deduction Totals = $97 312.29

Net Pay = $137 688