



Financial Literacy

Participant Handbook

Income and taxes



Module 2 - Income and Taxes

ACTIVITY SHEET 2-1

Reading Jemma’s pay stub (quiz)

1. What is the pay period on Jemma’s paystub? _____
2. When can Jemma cash her paycheque? _____
3. What is the social insurance number used for? _____
4. How much does Jemma make an hour? _____
5. How many hours does Jemma work in a week? _____
6. What is Jemma’s monthly GROSS PAY amount? _____
7. What is the total tax taken off Jemma’s cheque? _____
8. What does CPP stand for? _____
9. What percentage of her GROSS PAY is the CPP amount? _____
10. What does EI stand for? _____
11. What is Jemma’s total NET income for the month? _____
12. What should Jemma do with this pay stub? _____
13. What should Jemma NOT do with this pay stub? Why not? _____

Module 2 - Income and Taxes

ACTIVITY SHEET 2-1, continued

Jemma's pay stub

Big City Movers
345 – 46th Street
Saskatoon, SK
S1V 1B2

Pay Period: 01/03/2011 - 15/03/2011

Pay date: 15/03/2011

Cheque No: 000656

SIN: 123-456-789

Jemma Singh
123 East 82 Ave
Saskatoon, SK S1V 1B2

Earnings

Pay Rate:	# of Hours:	Gross Pay:	Year to Date:
\$10/hr	70	\$700.00	\$3500.00

Deductions

Federal Income Tax	\$ 55.50	\$ 277.50
SK Provincial Tax	\$ 8.85	\$ 44.25
Canada Pension Plan (CPP) (4.95%)	\$ 34.65	\$ 173.25
Employment Insurance (EI) (1.73%)	\$ 12.11	\$ 60.55
Total:	\$ 111.11	\$ 555.55

Net Pay:	\$ 588.89	\$2944.45
-----------------	------------------	------------------

Module 2 - Income and Taxes

HANDOUT 2-2

Reading a pay stub

Pay Period: This is the date range you are being paid for. It is usually biweekly (every two weeks). It could also be semi-monthly – that is, always on the 15th and 30th of the month. Sometimes the pay period is monthly.

Pay Date: This is the date that you can cash the cheque. The cheque is no longer valid (stale-dated) six months from that date.

SIN: This is your Social Insurance Number. You must keep it very private, to protect yourself from identity theft. DO NOT carry your SIN card in your wallet! If your pay stub includes your SIN file it safely, and then shred it before throwing it away.

Pay Rate: This is the amount you are paid per hour. Some people make a salary that does not depend on their hours worked. On their pay stubs, they see only the amount of pay in the pay period, but not an hourly rate of pay.

of Hours: This is the number of hours in this pay period. Check to make sure it is correct. If you have worked more hours, speak with your employer. If your employer uses a time clock, always remember to punch in and out so your hours are recorded.

Gross Pay: This is the amount you have earned before any deductions.

Year to Date: Many pay stubs will keep a running total of your earnings and deductions for the year.

Deductions:

Federal Income Tax: Your employer will calculate the amount of federal income tax to deduct from your earnings. The tax system in Canada is 'progressive'. This means that the more income you make, the higher percentage of your income will go toward taxes.

Provincial Income Tax: Your employer will also calculate the amount of provincial income tax to deduct from your earnings. This amount will be lower than the federal tax and is different in each province.

Canada Pension Plan (CPP): For those 18 years old and over. Employers will deduct 4.95% from your gross earnings over \$3500 until you reach the maximum contribution. The 2011 maximum was \$2,217.60. It goes up each year.

Employment Insurance (EI): Employers deduct 1.78% from your gross earnings until you reach the maximum contribution. The maximum was \$786.76 in 2011.

Net Pay: This is the Gross Pay minus the deductions – the amount you take home.

Your employer must provide you with a pay stub to show your earnings and deductions. Check to make sure that the information is correct!

Module 2 - Income and Taxes

HANDOUT 2-3

Filing your taxes

Government benefits

This is just some of the benefits you cannot get unless you file a tax return:

Canada Child Tax Benefit (CCTB)

National Child Benefit Supplement (NCBS)

Universal Child Care Benefit (UCCB)

Child Disability Benefit

Working Income Tax Benefit

GST/HST Rebate

Canada Learning Bond (CLB)

There may be even more benefits you can get in your province if you file a tax return, such as deductions for the rent you pay or for your medical expenses.

Where do I get the tax forms?

Once you start filing taxes, your income tax forms come in the mail each year from the Canada Revenue Agency. Between February and May each year, you can get them at the post office, from a Service Canada location, or online from the Canada Revenue Agency. More and more people use software that allows them to do the forms on their computers.

How do I get help with doing my taxes?

If you are on a low income, you can get free help with doing your taxes at a community tax clinic. Look in the Resources section to find a Community Volunteer Tax Preparation program near you.

If you have problems with your taxes, it is best to call the Canada Revenue Agency.

There are tax professionals who can help you with your taxes for a fee. Some tax preparation services charge **very high** fees, even on a simple tax return.

You are responsible for your tax return even if someone has prepared it for you. **Never** sign a blank tax return.

Deductions and credits

Your tax return includes a range of deductions from your gross income. These are amounts that will lower the amount of income you must pay tax on. Deductions include things like child care expenses and transit passes and you must keep your receipts for these.

The tax return form also has credits. This is an amount you can deduct from the tax you owe. For example, if your employer has been taking taxes out of your pay all year, those taxes are a credit on your tax return.

When you subtract your tax credits and deductions from your gross income, you find out if you owe taxes or if you will receive a refund.

Module 2 - Income and Taxes

HANDOUT 2-3, continued

Keeping records to use when you file your return

It is important to keep all papers that support your income tax return. Here are some examples of things you should keep:

- › Information slips from your employer (T4)
- › Information slips from the bank (T5)
- › post secondary education information slips (T2202A)
- › any tax-related papers you receive from the government
- › If you are self employed, keep a record of your income and all expenses paid to create that income
- › Receipts for employment expenses: You can claim expenses if you have to spend your own money for equipment, tools, and supplies to do your work, and your employer does not reimburse you (pay you back)
- › Union or professional dues (money you pay to be a member)
- › Public transit monthly passes
- › Registered Retirement Savings Plan (RRSP) contribution slips
- › Child care receipts
- › Moving expenses, if you moved to be at least 40 km closer to work (or to college or university if you are a student)
- › Medical expenses (such as prescription medicine, dentist, glasses, private health insurance)
- › Receipts for children's sports or arts activities
- › Receipts for income tax you paid in another country
- › Receipts for donations to Canadian charities or Canadian political parties

There may be other slips and receipts you need to keep to support your income tax return. Ask for advice from your local Community Tax Preparation Volunteer or a tax professional.

Getting your Notice of Assessment

After you file your taxes, you will receive a Notice of Assessment from the Canada Revenue Agency. The notice confirms your tax amounts and explains any changes the government made to your return.

If you have questions about this notice, call the Canada Revenue Agency toll-free: 1-800-959-8281

Getting a refund

You can receive a refund by direct deposit to your bank account or by cheque in the mail. Follow the instructions on your tax return to set up the way you want to receive your refund.

Remember: If you move, you must inform the Canada Revenue Agency so you will still get your refund!

Warning: Some businesses advertise 'instant refunds' when they do your tax return. These are not really refunds. They are a kind of loan. They can also come with high fees and NO guarantee that the refund amount is correct. You might still end up owing money.

Maria and Fernando's story

Maria and her husband Fernando worked together cleaning a big office building at night. They were hired by a man who ran a large cleaning company. They each got a paycheck twice a month.

In February, it was time to do income tax for their previous year's income. They asked the man from the cleaning company for their T4 slips. They needed to show on their tax return how much money he sent to the government in income tax.

The man said, "You are not employees. You are contractors."

The man had not sent any income tax money to the government for them. He said, "You have your own business."

Maria and Fernando had created income, but they had not paid any income taxes. They did not think that they were running their own business, so they had not put any money aside to pay taxes.

Also, they had not kept any receipts for their expenses. Without receipts, they could not claim business deductions.

They had to use their savings to pay the income tax and the CPP owing to the government.

Q: Do you think Maria and Fernando are employees or self-employed contractors?

Q: What should they have been receiving from the employer if they were his employees?

Q: If they keep working as contract cleaners, what should they do to be better prepared for tax time next year?

Q: Who should Maria and Fernando speak to if they have questions?

Module 2 - Income and Taxes

ACTIVITY SHEET 2-5

Goal-setting

Example:

Goal: Make a filing system for all of my tax-related papers.	When?
Tasks: <ul style="list-style-type: none"> › Gather all copies of my past tax returns for the last 6 years › Make a current year file to put any tax related papers and receipts for this year › Find out where to go in my community for free tax preparation help. 	This month Wednesday This month

1. Goal:	
Tasks:	When?

2. Goal:	
Tasks:	When?

Module 2 - Income and Taxes

HANDOUT 2-6

Resources

Canada Benefits Program www.canadabenefits.gc.ca

Helps you find out what federal and provincial government benefits you may be eligible for.

Canada Revenue Agency (CRA) www.cra-arc.gc.ca/

Government of Canada www.cra-arc.gc.ca/tx/ndvdl/dctrs/lrn-tx/menu-eng.html

This is an online, self-paced course on how to do your taxes, prepared by the Canada Revenue Agency.

Canada Revenue Agency (CRA) www.cra-arc.gc.ca/E/pub/tg/t4055/README.html

This pamphlet explains tax issues for people who moved to Canada during the tax year.

Canada Revenue Agency (CRA) www.cra-arc.gc.ca/tx/nrsdnts/ndvdl/nwcmr-eng.html

Information on the income tax rules that apply to newcomers to Canada in their first year.

Government of Canada www.youth.gc.ca/eng/topics/money/taxes.shtml

This website offers advice to youth preparing their first tax return.

Tax tips for students www.cra-arc.gc.ca/tx/ndvdl/sgmnts/stdnts/menu-eng.html

Volunteer tax preparation clinics www.cra-arc.gc.ca/tx/ndvdl/vlntr/nd-eng.html

For information across Canada - 1-800-959-8281

TaxTips.ca www.taxtips.ca

This is a website full of information on the Canadian income tax system.

Canada Revenue Agency (CRA) http://www.cra-arc.gc.ca/E/pub/tg/rc4110/rc4110e.html#employee_selfemployed

This website page helps you find out if you are employed or self employed.

Module 2 - Income and Taxes

HANDOUT 2-7

Glossary

Canada Pension Plan: a program that provides income to seniors. It is based on your contributions over your working life in Canada.

Canada Pension Plan deduction: an amount that is deducted from your paycheque (4.95% of gross pay as of 2011) up to a maximum amount each year.

Canada Revenue Agency: an arm of the government of Canada that collects taxes.

Deduct: to take away. For instance, if you are self-employed, you can deduct business expenses from your taxable income.

Employment Insurance (EI): a government program that helps the unemployed for a limited period of time while they look for work or upgrade their skills. EI also provides short term support for people who fall ill, have a new baby, or need to care for a family member who is very ill.

Employment Insurance deduction: an amount that is deducted from your paycheque (1.78% of gross as of 2011) up to a maximum amount each year.

Earned income: all of the money that comes into the household from employment or self-employment.

Exemption level: There is a basic federal amount for all of Canada. People who earn less than this amount do not pay income tax. Each province also has their own basic amount or exemption level.

Gross income: all of the money that comes into the household, before taxes.

Identity theft: when someone steals information about you and uses it to buy things or get cash in your name.

Income tax return: a set of forms filled out each year that calculates your tax amount for the previous year.

Income tax refund: the amount of money the government owes you based on your income tax return.

Inheritance: money that someone leaves to you when they die.

Notice of Assessment: After you file your taxes, the Canada Revenue Agency sends you a letter called a Notice of Assessment. The notice confirms your tax amounts and explains any changes that the Canada Revenue Agency made to your return.

Reimburse: to pay someone back for an expense.

Social Insurance Number (SIN): a nine-digit number that you must have to work in Canada or to receive government benefits.