

Calculating Voluntary Deductions

1. Lindsay earns a monthly pay of \$2735.00 per month. She pays dental benefits of \$132.67 per month and has a work related RRSP deduction for \$50.00. What is Lindsay's yearly net income after all deductions?

Step 1: Calculate annual gross pay

$$\begin{aligned}\text{Gross pay} &= \$2735.00 \times 12 \\ &= \$32\,820.00\end{aligned}$$

Step 2: Calculate mandatory deductions based on annual gross pay

$$\begin{aligned}\text{EI} &= 1.88\% \times \text{gross pay} \\ &= 0.0188 \times \$32\,820.00 \\ &= \$617.02\end{aligned}$$

This amount is less than the maximum of \$913.68, so the deduction will be \$617.02.

$$\begin{aligned}\text{CPP} &= 4.95\% \times (\text{gross pay} - \text{exemption}) \\ &= 0.0495 \times (\$32\,820.00 - \$3\,500.00) \\ &= 0.0495 \times (\$29\,320.00) \\ &= \$1\,451.34\end{aligned}$$

This amount is less than the maximum amount of \$2 425.50 so the deduction will be \$1 451.34.

Lindsay's income falls in the first tax bracket.

$$\begin{aligned}\text{Income tax} &= \text{tax rate} \times \text{gross pay} \\ &= 25\% \times \$32\,820.00 \\ &= 0.25 \times \$32\,820.00 \\ &= \$8\,205.00\end{aligned}$$

Step 3: Calculate annual voluntary deductions

$$\begin{aligned}\text{Dental Benefits} &= \$132.67 \times 12 \\ &= \$1\,592.04\end{aligned}$$

$$\begin{aligned}\text{RRSP} &= \$50.00 \times 12 \\ &= \$600.00\end{aligned}$$

$$\begin{aligned}\text{Total deductions} &= \$1\,592.04 + \$600.00 \\ &= \$2\,192.04\end{aligned}$$

Step 4: Calculate annual net pay

$$\begin{aligned}\text{Net pay} &= \text{gross pay} - \text{EI} - \text{CPP} - \text{income tax} - \text{voluntary deductions} \\ &= \$32\,820.00 - \$617.02 - \$1\,451.34 - \$8\,205.00 - \$2\,192.04 \\ &= \$20\,354.60\end{aligned}$$

Lindsay's annual net pay is \$20 354.60.