

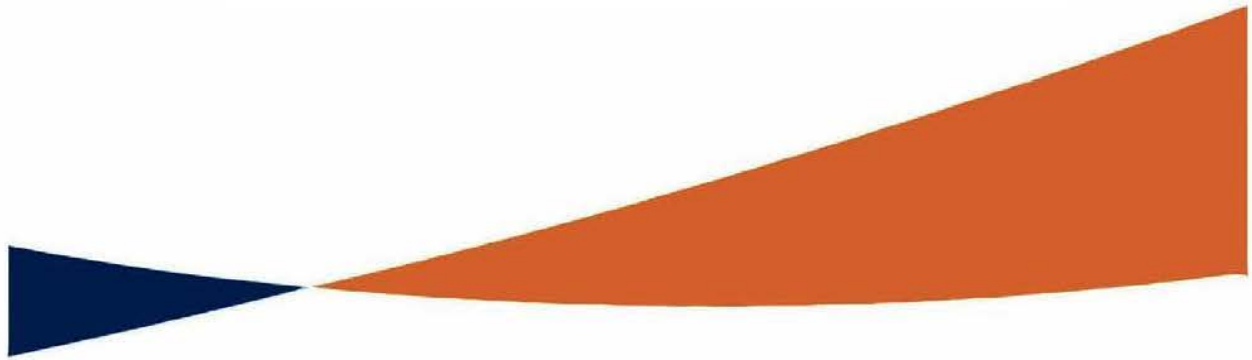


Prosper Canada

CENTRE FOR FINANCIAL LITERACY

Financial Literacy

Income and taxes



Module 2 - Income and Taxes

HANDOUT 2-1

Government benefits

Some sources of income are government benefits that are accessed only by filing your taxes. There are both federal and provincial benefits. For the purposes of this module we have focused on federal. To find out more about benefits specific to your province, visit the Canada Benefits website www.canadabenefits.gc.ca

Below are the government benefits available to Canadians. View the Canada Revenue Agency's (CRA) website to see more details, including eligibility.

Note: For two parent families, both parents must file taxes in order to receive this credit!

<http://www.cra-arc.gc.ca/bnfts/cctb/menu-eng.html>

Working Income Tax Benefit (WITB)

- Refundable tax credit for eligible working low-income individuals and families who are already in the workforce and to encourage other Canadians to enter the workforce
- Apply through your income tax and benefit return
- Can apply for advance payments

www.cra-arc.gc.ca/bnfts/wtb/menu-eng.html

GST/HST Credit

- Tax-free quarterly payment that helps individuals and families with low or modest incomes offset all or part of the GST or HST that they pay
- Individuals must be over 19 years of age and apply for the credit
- Have to have filed your taxes the previous year

! Note: You can apply when you are 18 so you can get the first payment once turning 19.

www.cra-arc.gc.ca/bnfts/gsthst/menu-eng.html

Canada Child Tax Benefit (CCTB)

- Tax-free monthly payment for eligible families to help them with the cost of raising children (under 18)
- Amount of the benefit varies depending on number of children, their ages, and the family net income
- Information from your income tax return used to calculate the amount; must file your tax return to receive the credit
- Some provinces have similar child/family bonuses

Module 2 - Income and Taxes

HANDOUT 2-1, Continued

Guaranteed Income Support (GIS)

- Provides a monthly non-taxable benefit to Old Age Security (OAS) recipients who have a low-income and are living in Canada
- Eligibility reviewed each year based on your income tax return
- In April 2023, the age of eligibility for Old Age Security pension and the Guaranteed Income Support will gradually increase from 65 to 67 over six years, with full implementation by January 2029.

Note: Government benefits can change annually. For the most up-to-date information, always check on the CRA or Canada Benefits websites.

www.servicecanada.gc.ca/eng/services/pensions/oas/gis/

Universal Child Care Benefit (UCCB)

- Helps Canadian families by supporting their child care choices through direct financial support for children under the age of 6 years; additional benefit for children ages 6 through 17
- Paid in monthly instalments per child
- Must live with child and be primarily responsible for care and upbringing. Should apply when child is born or starts to live with you
- Must be a resident of Canada

www.cra-arc.gc.ca/bnfts/uccb-puge/menu-eng.html

Child Disability Benefit (CDB)

- Tax-free monthly supplement for families who care for a child under age 18 with a severe and prolonged impairment in mental or physical functions
- Must be the primary caregivers of the child
- Applicants can send in the application form before filing their tax return

www.servicecanada.gc.ca/eng/goc/cdb.shtml

National Child Benefit Supplement (NCB)

- Joint initiative of the federal, provincial, and territorial governments to help prevent and reduce the depth of child poverty
- Provides low-income families with additional child benefits on top of the Canada Child Tax Benefit base benefit
- A tax-free monthly benefit specifically targeted to low-income families with children
- Benefit amount based on net family income and delivered through the tax system

www.nationalchildbenefit.ca/eng/home.shtml

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ACTIVITY SHEET 2-2

Reading David's pay stub (quiz)

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

Module 2 - Income and Taxes

ACTIVITY SHEET 2-2, Continued

Sample – Statement of earnings (pay stub)

DAVID JONES	Employee #: 0032344589	Employer #: 11-36	Pay from: 2014/12/13	To: 2014/12/27	Date: 2014/12/28	
STATEMENT OF EARNINGS			EMPLOYEE DEDUCTIONS AND EMPLOYER CONTRIBUTIONS			
EARNINGS	HOURS	RATES	CURRENT AMOUNT	WITHHOLDINGS	CURRENT AMOUNT	YEAR-TO-DATE
001 BASIC PAY	80.0	11.00/HR	880.00	EI	16.54	49.62
				CPP/QPP	36.90	110.70
				TOTAL INCOME TAX	82.83	248.49
				FED INCOME TAX	53.22	159.66
				ON INCOME TAX	29.61	88.83
SUMMARY	GROSS PAY		DEDUCTIONS		NET PAY	CHEQUE#
CURRENT	880.00		136.27		743.73	0044853
YEAR-TO-DATE	2640.00		408.81		2231.19	

Module 2 - Income and Taxes

HANDOUT 2-3

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.

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 2015 maximum was \$2,479.95. It goes up each year.

Employment Insurance (EI): Employers deduct 1.88% (excluding Quebec) from your gross earnings until you reach the maximum contribution. The maximum was \$930.60 in 2015.

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 2-4

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)	Working Income Tax Benefit
National Child Benefit Supplement (NCBS)	GST/HST Rebate
Universal Child Care Benefit (UCCB)	Canada Learning Bond (CLB)
Child Disability Benefit	

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?

Between February and May each year, you can get your income tax package at the post office, from a Service Canada location, or online from the Canada Revenue Agency or you can call 1-800-959-2221 to get a printed copy sent to you. More and more people use software that allows them to do the forms on their computers. The CRA keeps an up-to-date list on NETFile certified products.

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.

To find a Community Volunteer Tax Preparation program near you, visit www.cra.arc.gc.ca/tx/rdrdls/vlntr/clnes/menu-eng.html.

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.

Activity: Tax Deductions and Tax Credits

1. Break participants into two groups.
2. Give each participant a handout.

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?

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ACTIVITY SHEET 2-6

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 	This month
<ul style="list-style-type: none"> Make a file for the current year and keep any tax related papers and receipts for this year 	Wednesday
<ul style="list-style-type: none"> Find out where to go in my community for free tax preparation help. 	This month

1. Goal:	
-----------------	--

Tasks:	When?

2. Goal:	
-----------------	--

Tasks:	When?

Module 2 - Income and Taxes

HANDOUT 2-7

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/nnrstdnts/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.

Personal Tax Credits Return (TD1)

www.cra-arc.gc.ca/formspubs/frms/tdl-eng.html.

This website links to the TD1 forms for the current year for all provinces.

Module 2 - Income and Taxes

HANDOUT 2-7, Continued

Get Smarter About Money

<http://www.getsmarteraboutmoney.ca/en/Pages/default.aspx#.VUpXM5OgYnM>

Need an Accountant

<http://needanaccountant.org/Search.aspx>

CRA - Teaching About Taxes

<http://www.cra-arc.gc.ca/tx/ndvdl/dctrs/tchtx/tch-smpl-eng.html>

CRA Videos

<http://www.cra-arc.gc.ca/vdglly/menu-eng.html>

Social Development

<http://www.esdc.gc.ca/eng/home.shtml>

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HANDOUT 2-8

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.