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Budgeting part 2:

What is the difference between gross and net income?

- Gross income is how much you make before deductions.
- Net income (take home pay) is how much you make after deductions.
- Deductions are taken off your pay and include taxes, employment insurance and Canada pension
- Deductions are based on how much you make whether you are paid a wage or a salary.
- A table of “2020 tax brackets” has been included for you to practice calculating deductions and net income

2020 Tax Brackets

Tax Rate	Single
10%	\$0 to \$9,875
12%	\$9,876 to \$40,125
22%	\$40,126 to \$85,525
24%	\$85,526 to \$163,300
32%	\$163,301 to \$207,350
35%	\$207,351 to \$518,400
37%	\$518,401 and higher

SOURCE: [Internal Revenue Service](#)

Important information:

- Remember that the percent must be represented as a decimal (percent ÷ 100)
- The amount you calculated when you multiply by the percent is equal to the deduction.
- The calculations in this set of notes and practice problems will only focus on annual income.

Examples (using the “2020 Tax Brackets” table information above):

Question 1: How much does Mary get to take home if she has a gross income of \$9,000.00?

Solution 1:

First calculate the deductions	Second Calculate Net income
Deductions = Salary X tax rate as a decimal	Net income = Gross Income – Deductions
Deductions = \$9000.00 X 0.10	Net income = \$9000.00 – \$900.00
Deductions = \$900.00	Net income = \$8100.00

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Question 2: How much does Adrian get to take home if he has a gross income of \$42,000.00?

Solution 2:

First calculate the deductions	Second Calculate Net income
Deductions = Salary X tax rate as a decimal	Net income = Gross Income – Deductions
Deductions = \$42,000.00 X 0.22	Net income = \$42,000.00 – \$9240.00
Deductions = \$ 9,240.00	Net income = \$ 32,760.00

Practice Problems:

2020 Tax Brackets

Tax Rate	Single
10%	\$0 to \$9,875
12%	\$9,876 to \$40,125
22%	\$40,126 to \$85,525
24%	\$85,526 to \$163,300
32%	\$163,301 to \$207,350
35%	\$207,351 to \$518,400
37%	\$518,401 and higher

- Please use the “2020 Tax Brackets” table provided to help you complete the practice problems
- Refer to the examples for guidance

SOURCE: [Internal Revenue Service](#)

1. How much does Abigail get to take home if she has a gross income of \$8,500.00?
2. How much does Allison get to take home if she has a gross income of \$36,225.00?
3. How much does Adam get to take home if he has a gross income of \$71,555.00?
4. How much does Alexandra get to take home if she has a gross income of \$135,500.00?
5. How much does Abraham get to take home if he has a gross income of \$402,200.00?
6. How much does Abbey get to take home if she has a gross income of \$1,000,000.00?