



## TEACHING TAXES 2018



## WHAT IS TAX?

Tax is a mandatory payment made to government. It can be levied upon things such as income, property, and sales. The income generated from taxes is used to support the government and the programs and services it provides.

## WHY DO WE PAY TAXES?

Many of the services and benefits we enjoy today are made possible through taxes.

We pay taxes on:

- Our income
- Property
- Most goods and services we purchase in Canada.

The government collects these taxes to pay for such things as

- roads and highways
- Hospitals
- Education
- Health care
- National defence
- Police and fire services
- Parks and playgrounds
- Libraries
- Garbage collection and many other programs and services.

Tax revenue also helps redistribute wealth to benefit lower-income individuals and families by funding social programs such as the old age security pension, Canada child benefit and social assistance.

## THE TAXPAYER BILL OF RIGHTS

A **taxpayer** is every person or entity that is required to comply with the legislation administered by the Canada Revenue Agency (CRA), including individuals, businesses and charities.

The Taxpayer Bill of Rights is a set of 16 rights that you have in your relationship with the CRA.

These rights confirm the CRA's commitment to serve you with professionalism, courtesy, and fairness.

## TAXPAYER BILL OF RIGHTS

1. You have the right to receive entitlements and to pay no more and no less than what is required by law.
2. You have the right to service in both official languages.
3. You have the right to privacy and confidentiality.
4. You have the right to a formal review and a subsequent appeal.
5. You have the right to be treated professionally, courteously, and fairly.
6. You have the right to complete, accurate, clear, and timely information.
7. You have the right, unless otherwise provided by law, not to pay income tax amounts in dispute before you have had an impartial review.
8. You have the right to have the law applied consistently.
9. You have the right to lodge a service complaint and to be provided with an explanation of our findings.

## TAXPAYER BILL OF RIGHTS CONT...

10. You have the right to have the costs of compliance taken into account when administering tax legislation.
11. You have the right to expect us to be accountable.
12. You have the right to relief from penalties and interest under tax legislation because of extraordinary circumstances.
13. You have the right to expect us to publish our service standards and report annually.
14. You have the right to expect us to warn you about questionable tax schemes in a timely manner.
15. You have the right to be represented by a person of your choice.
16. You have the right to lodge a service complaint and request a formal review without fear of reprisal.

## CLASS DISCUSSION

- Which right do you think is particularly important? why?
- If you could suggest a new right, what would it be and why?

## UNDERSTANDING TAXES

### What is the GST?

- The Goods and Services Tax (GST) is imposed on most goods and services sold in Canada.

### What is HST?

- The provinces of New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, and Prince Edward Island, combined their provincial sales tax with the GST to form the Harmonized Sales Tax (HST).

## Examples of goods and services on which we do not pay GST/HST:

- basic groceries such as milk, bread, and vegetables
- prescription drugs and drug-dispensing fees
- medical devices such as hearing aids and artificial teeth
- most healthcare, medical, and dental services
- residential rents, including university residences and boarding houses
- used residential housing
- local or municipal bus services and passenger ferry services
- legal aid services
- most banking services
- most child care and educational services, including tuition fees

## TAX CHARACTERISTICS

A tax is defined by its characteristics, such as:

- A. who pays the tax
- B. the tax base (the amount we pay tax on)
- C. the rates applied to the base
- D. general exemptions and deductions
- E. other measures, such as how tax is paid

# TAX CATEGORIES

## Proportional or flat tax:

- You pay the same tax rate as everyone regardless of how much income you earn. Federal corporate income tax in Canada is charged at a flat rate.

## Progressive tax:

- You pay a higher rate of tax as you earn more income. Personal income tax in Canada is a progressive tax.

## Regressive tax:

- You pay less of your income in tax as your income gets larger. Sales tax is considered to be regressive because as your income rises, the percentage of your income used to pay sales tax decreases.

# YOUR TURN

- Complete exercises on pages 5 and 6 of your workbook to learn how tax affects your income.
- How is Jack and Emily's after-tax income affected by the different taxes?

## EXEMPTIONS AND DEDUCTIONS

- Exemptions and deductions can help offset the progressive or regressive nature of tax.

For example,

residential rent is exempt from GST/HST. When an individual with a low income spends a large portion of their income on rent, they will pay a smaller percentage of their total income on GST/HST.

## GST/HST CREDIT

- The GST/HST credit is a tax-free quarterly payment that helps individuals and families with low or modest income offset all or part of the GST/HST they pay.
- To receive the GST/HST credit you have to complete an income tax and benefit return.

## CHARACTERISTICS OF THE GST/HST

- Everyone pays GST/HST when they purchase a good or service
- The purchase price of the item is the tax base
- The GST rate is 5% (HST rate depends on your province)
- Basic groceries, prescription drugs, residential rents, and certain other items and services are not subject to GST/HST
- GST/HST is collected at the point of sale

## ARE YOU ELIGIBLE FOR THE GST/HST CREDIT?

- Look to page 7 in student workbook to check eligibility criteria.

# EMPLOYMENT AND TAXES: **STARTING A NEW JOB**

## *Social insurance number:*

- You must apply for a social insurance number (SIN) to work in Canada or have access to government programs and benefits.
- Although you must give your SIN to anyone who prepares a tax slip for you, such as your employer or financial institution, your SIN is confidential and should not be shared unless required.

## *Form TD1, Personal Tax Credits Return*

- You must complete Form TD1 when you start a new job.
- Your employer uses the information from your completed form to determine how much tax they must deduct from your pay.
- Do you remember completing Form TD1 when you started a new job?
  - TD1 (Federal)
  - TD1 NL

## PROTECTING YOUR SIN

- [canada.ca/social-insurance-number](https://canada.ca/social-insurance-number)

## STATEMENT OF EARNINGS (PAY STUB)

A statement of earnings shows how much you earned in a pay period and the deductions taken from those earnings.

Your employer has to deduct amounts for:

- Canada Pension Plan or Quebec Pension Plan
- Employment insurance
- Income tax

## **Canada Pension Plan (CPP) and Quebec Pension Plan (QPP)**

The CPP can provide you with pensions and benefits if you retire, become disabled, or die. With very few exceptions, every person who is 18 to 70 and works in Canada must contribute to the CPP. If you work in the province of Quebec, you contribute to the QPP instead.

## **Employment insurance (EI)**

EI can provide you with financial assistance if you lose your job through no fault of your own, while you look for work or upgrade your skills. If you are sick, pregnant, or caring for a newborn or newly adopted child or seriously ill family member, you may also be helped by EI. There is no age limit for paying EI premiums.

## **Quebec Parental Insurance Plan (QPIP)**

Maternity, parental, and adoption benefits for residents of Quebec are administered by the province of Quebec. QPIP replaces similar benefits that Quebec residents previously received under the Employment Insurance Act. As a result, employees working in Quebec will pay QPIP premiums and reduced EI premiums.

## **Income tax**

Income tax is a tax applied to income. Your employer deducts income tax from your earnings based on your province or territory of employment and your completed Form TD1.

## Gross pay

The amount of your earnings before any deductions are withheld.

## Net pay

The amount of your earnings after deductions have been withheld.

# PAY STUB WORKSHEET

### Sample – Statement of earnings (pay stub)

Joseph Mayer		Employee #: 0032344589	Employer #: 11-36	Pay from: 2017/1/13	To: 2017/1/26	Date: 2017/12/01
STATEMENT OF EARNINGS			DEDUCTIONS			
EARNINGS	HOURS	RATE	CURRENT AMOUNT	WITHOLDINGS	CURRENT AMOUNT	YEAR-TO-DATE
001 BASIC PAY	75.00	16.00/hr	1,200.00	EI CPP/QPP INCOME TAX	22.56 52.74 156.61	564.00 1,318.50 3,915.25
SUMMARY		GROSS PAY	DEDUCTIONS	NET PAY	CHEQUE #	
CURRENT		1,200.00	231.91	968.09	0044853	
YEAR-TO-DATE		30,000.00	5,797.75	24,202.25		

## T4, STATEMENT OF REMUNERATION PAID

A T4 slip is a summary of your earnings and deductions for the year.

- You need this information to complete your tax return.
- Your employer must give you your T4 slip by the end of February.

## SAMPLE T4

Fill out the T4 slip on page 8 of your workbook, as if you are an employer.

Enter the following information:

1. A business name
2. An employee name and address
3. 123 456 789 as the employee's SIN
4. The tax year and the province of employment
5. Employment income of \$26,275.00
6. CPP or QPP contributions of \$1,127.36
7. EI premiums of \$493.97
8. Union dues of \$165.00
9. Income tax of \$2,917.68

# COMPLETING A TAX RETURN

- Canada's income tax system is based on the principle of self-assessment.
- Each year, you complete a tax return to report your income, claim your deductions and credits, and calculate your tax for the year.
- To get benefits such as the GST/HST credit and the Canada child benefit, you must complete a return every year even if you have no income to report.

## THINK ABOUT IT!

- How often do you have to complete a tax return?
- Why is it important to complete your return?

## HOW TO COMPLETE YOUR RETURN

- Use tax preparation software Complete your return online. Use tax preparation software certified for NETFILE. Tax software is easy to use and many products are free.
- Use a tax preparation service Take your documents to a tax preparation business to complete your return for you.
- Complete a paper return Fill in a paper return and mail it to your tax centre.

**What would be some pros and cons of each method?**

## CERTIFIED TAX SOFTWARE

- Visit [canada.ca/netfile](https://canada.ca/netfile) to find certified software for the NETFILE program.

Tax preparation products that can be used to complete a return online for free:

- Simple Tax
- Turbo Tax
- GenuTax Standard
- Studio Tax
- AdvTax
- H&R Block Tax Software

## COMPLETE A SIMPLE RETURN

- You can find the information you need to complete your return on [canada.ca/taxes](http://canada.ca/taxes) or by using the help feature of your tax preparation software.
- If you do not have access to the Internet, you can use the General Income Tax and Benefit Guide

## LETS TO THIS!

In a group of 2, work together to complete a paper tax return for Catherine Casey, a high school student with two part-time jobs.

You will need to use:

- The instructions to complete Catherine's return (student workbook, pages 9-11)  
Exercise 1
- *Exercise 1(QC) for students in Quebec (student workbook, pages 12-15)*
- An income tax and benefit return, Schedule 1, and the forms for your province or territory.
- Using a FREE Tax software, fill out Catherine return...
  - **REMEMBER DO NOT FILE THIS!!!!!!!!!!**