

Provincial Tax

The amount of provincial tax owed varies between province/territory to province/territory. It is calculated using a provincial rate table with different tax credits than those used in the federal rate table. More information can be found on the Government of British Columbia website.



To simplify matters in this book, the Provincial Tax payable by individuals in British Columbia will be calculated as 40% of the Basic Federal Tax. This gives a reasonable approximation in most cases.

As can be seen, the calculation of an individual's Federal Tax and Provincial Tax can be very complicated. It is based on all types of income e.g., earned, interest, dividend, capital gains, etc., and on the numerous types of tax-exempt deductions and tax credits available. Professional tax accountants can help individuals and businesses with the preparation of income tax returns.

In this book, we will only consider earned income and we will use the following simplified guide to determine an individual's total income tax.

Calculating an Individual's Total Income Tax

- Step 1:** Calculate the individual's annual taxable income
Annual Taxable Income = Gross Income - Tax-Exempt Deductions
- Step 2:** Calculate the individual's tax credits
Tax Credits = CPP + EI Premium + Basic Personal Amount + others
- Step 3:** Calculate the individual's **Federal Tax** using the Federal Tax Rate Table for the current year.
- Step 4:** Calculate the individual's Basic Federal Tax
Basic Federal Tax = Federal Tax - 15% of Tax Credits
- Step 5:** Calculate the individual's Provincial Tax as 40% of the Basic Federal Tax.
- Step 6:** Add the Basic Federal Tax and the Provincial Tax to calculate the **total income tax** the individual must pay.

Net Annual Income - Take Home Pay

An individual's net annual income is the income remaining after all government deductions, income tax, and other voluntary deductions are subtracted from the gross income.

$$\text{Net Annual Income} = \text{Gross Income} - \text{CPP} - \text{EI Premiums} - \underbrace{\text{Federal and Provincial Tax}}_{\text{Income Tax}} - \text{Others}$$