PRACTICAL AND FINANCIAL LITERACY

Gross versus Net Income

Difficulty level: Easy

Practical and Financial Literacy

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Overview of the concept

This is how you read a paycheque and know what you actually take home after tax and deductions, so you can budget with the real number instead of the headline salary. The salary a job offers is the gross pay, but tax, pension, and other deductions come off before the money reaches your account. Knowing the difference keeps you from budgeting money you will never see, and it is the first thing to check when you compare two job offers or plan your rent.



Rule

Gross versus net income: gross income is the full amount earned, and net income is what is left after deductions.

Net income = gross income - deductions.

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Worked examples

EXAMPLE 1

Q Your gross pay is $3,000 a month and your deductions are $600. What is your net pay?

SOLUTION

This is a gross-to-net question, and the one rule to remember is: net pay is gross pay minus deductions.

$3,000 - $600 = $2,400

Your net pay is $2,400 a month. That is the money that actually lands in your bank account, and it is the number to budget with.

EXAMPLE 2

Q Your net pay is $1,800 and your deductions were $200. What was your gross pay?

SOLUTION

This is the same idea run backwards. Gross pay is net pay plus the deductions that were taken out.

$1,800 + $200 = $2,000

Your gross pay was $2,000. When you work backwards, you add the deductions back instead of taking them off.

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Practice questions

1 **Your gross pay is $4,500 and your deductions are $900. What is your net pay?**

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2 **Your gross pay is $2,500 and your net pay is $2,125. How much was deducted?**

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3 **What percentage of $2,500 is $375?**

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4 What is gross income?

- A Income before deductions
- B Income after deductions
- C The money left after tax only
- D The pay for overtime hours only

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5 What is net income?

- A Income before deductions
- B Income after deductions
- C The total pay before any hours are counted
- D The pay for one week only

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6 **Which should you budget with: your gross pay or your net pay?**

A Gross

B Net

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7 **Basic pay is $500, overtime is $30, and a bonus is $10. What is the gross pay?**

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8 **Your net pay is $2,600 and your deductions were $400. What was your gross pay?**

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9 A worker earns $20 an hour for 40 hours a week, with $160 deducted. What is the weekly net pay?

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10 Two jobs pay the same gross, $3,000 a month, but one deducts $500 and the other deducts $700. Which job leaves more money, and by how much?

A. The first job, by $200 a month

B. The second job, by $200 a month

C. The first job, by $700 a month

D. They leave the same money

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ANSWER KEY

1. $3,600

2. $375

3. 15%

4. Income before deductions

5. Income after deductions

6. Net

7. $540

8. $3,000

9. $640

10. The first job, by $200 a month

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