

Working two jobs helps explain our tax system

Let's work through a comparison. One person works two jobs earning \$25,000 at each for total annual income of \$50,000 and the other works one job earning \$50,000. Both earn \$50,000. The mechanics of source income tax remittance (the federal and provincial governments get their tax from you before you get to touch the money) works well for the individual with one job but not so well for the individual with two jobs.

The individual with one job will pay \$8,206 in income tax in Ontario. This will be taken from the paycheck. If paid monthly, the remittance will be $\$8,206 / 12 = \684 per month. If paid twice a month, $\$8,206 / 24 = \342 and so on. Tax deducted at source will be roughly equal to the final calculation of amount owed determined when completing an income tax return.

The individual with two jobs will be under taxed at source unless they ask either one or both to remit more to the governments. The problem is that neither employer knows or is interested in knowing about the other employer. Each is responsible to remit the tax portion of the \$25,000 salary. Both employers will remit the tax on a \$25,000 salary of \$2,719. $\$2,719 \times 2 = \$5,438$. This is $\$8,206 - \$5,438 = \$2,768$ less than what is owed in tax. This gets exposed and corrected when the completing and filing the income tax return.

This shocks many people. The problem is that the tax remitted through out the year is less than the amount owed. The ultimate reason for the problem is that tax owed on \$50,000 is substantially more than double tax owed on \$25,000. This illustrates the progressive nature of our tax system.