Tax Literacy and Financial Management

Understanding our tax responsibilities and the resources available to support us is an important part of financial management. When creating a budget, young adults need to be aware of the taxes that will be deducted off their pay cheque, as well as available tax credits and benefits that may help them pay for living expenses.

Key Concepts

1. **We may not get to keep all the money that we earn.**
   - Income is the money we earn inside and outside Canada and includes full and part-time wages, tips and selling goods or services online.
   - Personal income tax:
     - is a tax we may have to pay on our income;
     - is usually deducted off our pay cheque by our employer and sent to the Canada Revenue Agency (CRA); and
     - must be accounted for when creating a personal budget.

2. **We need to file an income tax and benefit return each year we have income.**
   - Ontario’s personal income tax system is based on self-assessment – this means that each year we earn money, we are expected to complete an accurate income tax and benefit return (tax return) and submit it to the CRA by April 30.
   - The tax return is a set of forms used to demonstrate our total income for the year, calculate the tax payable and determine if we paid the right amount of tax.
   - The tax return allows us to claim various expenses and credits to reduce or even eliminate our tax payable.
   - If we paid too much tax, we may get a tax refund.

3. **Even if we do not earn income, filing a tax return before we turn 19 can result in government payments to help with living expenses.**
   - The tax return is an application for tax-free government payments such as the Ontario Trillium Benefit and the federal Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit.
   - Payments generally start at age 19.
   - The only way to apply for these payments is by filing a tax return.
Discussion Prompts

- What is personal income tax?
- Why do we pay taxes?
- What are deductions on our pay cheque?
- What resources are available to help people with their taxes?
- What is the connection between filing a tax return and receiving government benefits?

Online Resources and Instructional Tips

Government programs can change over time. An important component of tax literacy is understanding how to access resources and information to stay informed and up-to-date. There are a lot of online government resources and tools available to help people understand the personal income tax system.

Encourage students to go online to become familiar with government resources available to support their tax literacy. The “Welcome to Income Tax – Student Worksheet” is a helpful tool to encourage students to demonstrate their knowledge.

Ontario Ministry of Finance
ontario.ca/taxreturn
ontario.ca/benefitsforpeople

Canada Revenue Agency (CRA)
canada.ca/taxes-get-ready
canada.ca/taxes-students
canada.ca/taxes-help
canada.ca/benefits