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CANADA

FREE MONEY GUIDE, PLAIN LANGUAGE

Tax Brackets: How Canadian Tax Works

A raise cannot shrink your take-home pay — and by page four you will know exactly why.

If you have ever feared "the next bracket," this book retires that fear. Nobody's whole income is taxed at their bracket rate — not yours, not anyone's. Four pages from now, you will never again turn down a raise, a shift or a side job because of tax.

Five bracket beliefs that cost real money — which ones do you hold?	
1	"The raise will push me into the next bracket, so I could lose money." Impossible by design. The higher rate touches only the dollars above the line; every dollar below it keeps its old rate. More gross always means more net pay.
2	"Overtime is not worth it after tax." Extra hours are taxed at your marginal rate, not swallowed by it. You keep the larger share of every overtime dollar — and the exact split for your province is one calculator away.
3	"My bracket rate is what I pay on everything." That rate applies only to your top slice. Your average rate — what you truly pay across all your income — is always lower, usually much lower.
4	"A big refund means I paid less tax." A refund means you overpaid all year and the government handed it back without interest. Same bill either way — you just made a free loan.
5	"Deductions and credits do the same job." One removes income from the tax calculation; the other reduces the finished tax bill. Knowing which is which changes what a claim is worth — and sometimes whose return it belongs on.

On purpose, this guide quotes no rates and no bracket lines — they change most years and differ by province. For live numbers, run the marginal tax rate calculator at taxfilings.ca/tools or check the official tables at canada.ca.

01 Tax is a staircase, not a cliff

Picture your income poured up a staircase. The first slice lands on the bottom step, the next slice on the step above, and so on. Each step charges its own rate — and a step only ever taxes the dollars standing on it. Crossing "into a new bracket" simply means a few of your dollars reached a new step. The dollars on the lower steps never move, and never get re-taxed.

Your marginal rate

The rate charged on your next dollar — the top step your income currently reaches. This is the number that matters for decisions: overtime, a bonus, a side contract, an RRSP contribution.

Your average rate

Your total tax divided by your total income — a blend of every step you touch. This is the number that describes your year, and it always sits below the marginal rate people quote at parties.

PUT THIS TO WORK

Before any money decision, ask one question: what happens to my next dollar? An RRSP contribution, for example, saves tax at your marginal rate — which is why the same contribution can be worth more in a high-earning year. Look up your own next-dollar rate with the marginal tax rate calculator at taxfilings.ca/tools.

02 Two governments, one staircase each

Canada charges income tax twice on one return: a federal staircase everyone shares, and a provincial staircase that depends on where you live. The two are stacked together, which is why the same salary takes home different amounts in different provinces — and why any rate table you find online may already be stale. Steps and rates move most years.

THE DECEMBER 31 RULE

Your province for the entire tax year is wherever you ordinarily live on December 31. A move near year-end can change the provincial layer on every dollar you earned that year — check both provinces' numbers before you book the truck.

THE MISTAKE THAT ACTUALLY COSTS MONEY

Turning down income to protect a bracket. People refuse shifts, push invoices into a worse year, or hesitate over promotions out of tax fear. Each of those choices gives up whole dollars to avoid paying cents on them. Take the income — the staircase will not eat it.

03 What a raise really does, told in words

Say your raise lifts your top slice over a bracket line. Every dollar below the line is taxed exactly as it was before — nothing about your old income changes. Only the dollars above the line pay the new step's rate, and you keep the rest of each one. Your total tax goes up; your take-home goes up too, every single time. There is no raise, bonus or extra shift that makes the number on your paycheque smaller.

THE HONEST FOOTNOTE

What can shrink as income rises is not your pay but income-tested government benefits — some payments phase out as family income grows. That is a benefits question, not a bracket one, and it matters only inside specific income ranges. If your household receives benefits, model the raise with the personal income tax calculator at taxfilings.ca/tools before assuming anything.

04 Deductions, credits, and the free first slice

Deductions work before

They remove income from the staircase entirely, starting at the top step. That is why a deduction saves tax at your marginal rate — and why it is worth more in a high-earning year.

Credits work after

The staircase finishes its math first; then credits knock an amount off the resulting bill. Most credits give every claimant roughly the same saving, whatever they earn.

YOUR TAX-FREE SLICE

Every filer gets the basic personal amount — a credit that wipes out the tax on the first slice of income, so the bottom of everyone's staircase is effectively free. The size of that slice changes each year; check the current figure at canada.ca. It is also why a low-income year can owe nothing and still be worth filing — filing is what unlocks benefits, so file it.

05 Bracket myths, retired for good

MYTH	FACT
"Bonuses are taxed at a special, higher rate."	Payroll often withholds more from a bonus up front, but on your return it is ordinary income on the staircase. Anything over-withheld comes back when you file.
"Married couples share one bracket."	Canada taxes individuals, not couples. Each spouse climbs their own staircase — which is exactly why placing a claim on the right spouse's return can save money.
"There is nothing you can do about your bracket."	RRSP contributions, pension splitting and timing income across years all move dollars between steps and between years. Brackets reward planning — run one scenario in the calculators before year-end and see.

06 Seven quick questions

How many can you answer YES to?

1. I can explain the difference between my marginal rate and my average rate.	YES / NO
2. I know that only the dollars above a bracket line pay the higher rate.	YES / NO
3. I have looked up my combined federal-plus-provincial rate for this year.	YES / NO
4. I have never refused income out of bracket fear.	YES / NO
5. I know whether a deduction or a credit helps me more right now.	YES / NO
6. I can say why the first slice of everyone's income is effectively tax-free.	YES / NO
7. I checked what my last raise truly added to my take-home, instead of guessing.	YES / NO

6–7 · Green
The staircase holds no fear for you. Use your marginal rate as a planning tool — that is its real job.

3–5 · Yellow
You have the idea but not your own numbers. Ten minutes with the marginal tax rate calculator closes the gap.

0–2 · Red
Bracket fear has probably already cost you money. Read pages two and three once more, slowly — then look up your real rates.

07 Your four-day rate reset

Day 1
Dig out your latest notice of assessment and find your taxable income. That is where you stand on the staircase.

Day 2
Run that number through the marginal tax rate calculator at taxfilings.ca/tools. Meet your marginal and average rates.

Day 3
Test one decision — an RRSP contribution, extra shifts, a side contract — and see what your next dollar really keeps.

Day 4
Retire one myth out loud: explain the staircase to someone who fears the next bracket. Teaching it locks it in.

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