

Spec'ing Your Taxes — with Robert D. Scheper

Making Your Miles Count: Per Diem vs. Non-Refundable Tax Credit



There is a lot of misinformation about per diem. The words 'per diem' are Latin for 'per day' and many in the trucking industry who use the words, generally attribute them to the \$51.00 per day allowance provided on the TL2 (simplified method).

However, this seems to be an anomaly, mostly in the trucking industry. The many other industries that use the per diem system are very aware of its true tax meaning. Simply put, it's a "non-taxable benefit" provided to an employee by an employer.

A per diem figure can range in amount depending

on the agreement. Canada Revenue Agency allows any amount that is defensible (key word being defensible). The defense would involve more than just a discussion about an amount. If you need to know more it would be helpful to read my extensive blog and download my free tax seminar on our website (see below).

Many per diem amounts are negotiated one time. However, linking per diem to the Treasury Board of Canada (now called National Joint Counsel) is also popular. The current daily per diem is \$89.10.

The TL2 per day allow-

ance is a non-refundable tax credit, which is decidedly different than a non-taxable benefit. The \$51.00 is a non-negotiable amount set by CRA guidelines for anyone who uses the form. The \$51.00 is also only a starting point that is eventually reduced through a series of formulas on your personal income tax form. The best province in Canada produces a \$13.60 after-tax credit.

The problem comes from the comparison of the after tax credit and the non-taxable benefit. The formula is easy enough to calculate, but the results are hard to swallow. Currently

the average difference is 655% (\$89.10/\$13.60). This came down from 926% in 2007, when my book was published on this topic (\$76.95/\$8.31) but up from 626% in 2011 (\$85.20/\$13.60). The reason it has started to creep back up again is that the adjustments of the lunch bag letdown campaign stopped in 2011, while the National Joint Counsel gives raises every six months.

The problem with many tax preparers is that they associate the words per diem with the \$51.00 per day. This is a serious error. In the words of the judge who struck down the

class action lawsuit (failing at the Supreme Court in December 2006) "...it's like comparing apples to monkeys...". I prefer to say it's like putting gasoline in your diesel engine. It won't work... or maybe more accurately, it will work but only until your engine blows up... or you are audited.

If you are a self-employed operator and your taxes are prepared properly, you can't use the \$51.00 anyway (see IC73-21R9). Actual invoices are the only way to survive a complete audit. However, bumping down the road operators hear and discuss many combinations... most are untrue or half true.

There is also another common occurrence. Many tax preparers only complete half the transition to the per diem system. Once the client is incorporated, they T4 them at the end of the year and are then legally able to use the TL2 simplified method. It's better than the self employed receipt total (which usually totals less than \$51.00), but not nearly the impact of the per diem system.

For those who use the per diem system (prop-

erly) you already know the net tax affect (est. \$10k per year). You should also be well familiar with the monthly requirements and the seven disadvantages of using it (not insignificant or insurmountable).

For those operators whose per diem is linked to National Joint Counsel you will be expecting your semi-annual raise April 1st, 2013. It may finally top \$90.00 this time. For those of us who have been following the semi-annual raises, we have noticed a slight decline in the percentage increase. This would be the result of Sr. government negotiations over the last number of years. Politically, it is of notable interest. 🌟

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