

Making Your Miles Count: The Problem with Income Taxes

Traveling coast to coast can produce a problem for understanding income taxes in Canada. Many drivers have friends and acquaintances that live and work sometimes thousands of miles away. When the topic of income taxes comes up there can be significant differences in perception and therefore results.

Canada is a big country, over three thousand miles from coast to coast. There are pockets of unique civilization sprinkled all across this vast and beautiful country. At times (and locations) there are incredibly different understandings of what is legal and what is not.

A few years ago there was a small city that somehow began believing a legitimate business expense could be "recalculated and multiplied". For an approximate 100 mile radius it seemed most people used this "recalculated" figure. It had a significant effect on individual returns. Canada Revenue Agency began auditing the returns and found all of them to be "in error". Since many of the local population used the "recalculated and multiplied" figure CRA tried to retrain the citizens by clamping down hard on all filers who used the erroneously used the legitimate expense. The net effect was that the local citizens got scared and stopped using the expense entirely (believing they couldn't). Though this overreaction was a local phenomena, truck drivers began spreading their misunderstanding wherever they traveled. Examples of this type can be seen all across our country. I have talked with thousands of drivers coast to coast and have found several "misunderstandings" that continue to bounce around our nations coffee shops.

Sometimes Canada Revenue Agency doesn't help the matter either.

Around (or before) December 2006 25 Lease/Owner operators from Moncton New Brunswick were audited. They all used the simplified method (from the TL2) to calculate their meal expenses on the road (\$33.00 per day at that time, now its \$52.00). It has been legitimately used for over 20 years prior to these audits. The auditors presented IC73-21R9 a circulation that required both employers and employees to sign the TL2 (in order to use the simplified method). All 25 operators paid about \$5,000 each (representing 2 years each). Soon all across Canada accountants and drivers were in turmoil. Some accountants demanded operators produce meal receipts while others did not.

CRA however, still doesn't consistently apply the IC73-21R9 across Canada. In fact I have witnessed auditors still training operators how to calculate a qualifying "day". So, in some parts of Canada your allowed (and trained) to do one thing while in another citizens are penalized. In the trucking industry sooner or later everyone talks to everyone, therefore Confusion and Controversy prevails.

The most controversial issue around taxes must still be the non-taxable benefit system. It is so because it is complicated, compared to the self-employed system. Unfortunately both systems share a term or phrase that is applied completely different in each system. It is the term "Per diem" and is Latin for "per day". The simplified method uses a per diem of \$52.00 that is placed in line 8523 (reduced by 20% for truckers). The income tax calculations further reduce the

amount till it ends up as approximately \$13.60 (in the best province) and calls it a “non-refundable tax credit”.

The non-taxable benefit system uses a “per diem” figure as well but it is not restricted by the self-employed guidelines. The amount is 100% tax free to the recipient. Therefore anything above \$13.60 would produce a better result than the simplified method.

This may be complicated to explain but it produces phenomenal results in tax returns. Savings of \$10-12,000 per year is standard. The difficulty is its application. Not everyone does it properly or is prepared to defend it. Most accountants (CPA’s) refuse to use it (if they even know about it).

Prior to the 1980’s basically the entire trucking industry used it. Back then drivers were getting \$20-30 “per day” as a non-taxable meal allowance. Many industries still use it today: airline, oil and gas, forestry and government just to name a few. There are seven disadvantages to using it (outlined in our free downloadable seminars on our web site). The most critical disadvantage is the need for a qualified firm’s defense. If you are not adequately defended don’t try and do it, the risks are just too high. It’s not for everyone but when applied it can easily make your house payment.

The real problem with income tax is the disinformation and misunderstandings. Some people got scared by something they heard and refuse to use a legitimate expense (or system) while others try to use something legitimate but are not properly trained or adequately defended. A strong business person will do the research, and make sure their liability is covered. If you are going to do it, do it right!

About the Author:

Robert D. Scheper is a leading Accountant and Consultant exclusively serving the Lease/Owner operator industry in Canada. His first book in the Making Your Miles Count series “taxes, taxes, taxes” was released in 2007. His second book “Choosing a Trucking company” is the most in-depth analysis of the independent operator industry today. He has a Master degree (MBA) in financial management and has been serving the industry since he and his wife came off the road in 1993. His dedication, commitment and strong opinions can be read and heard in many articles and seminars. You can find him at www.makingyourmilescount.com or 1-877-987-9787.