

Making Your Miles Count: Non-taxable verses Self-Employed

The first few months of the year is always focused on tax in many ways. Too many people think their options are seriously limited. They are only half right. Your options are determined by the tax reporting system you choose and the systems are NOT the same. The two primary systems are the self employed and employee (which can use non-taxable benefits).

The self-employed system is one of the most inefficient tax reporting system available for operators. It's easy for accountants but costly in tax payable. The reason is the restrictions imposed by Canada Revenue Agency. Simply put it is invoice driven. Invoices are the only means of reducing taxable income. Tire expenses need invoices for tires, fuel expenses need fuel invoices and meal expenses need restaurant receipts.

Though the vast majority of accountants still use the \$51.00 per day simplified method it can be (and lately often is) refused. In order to tell if you are carrying this potential refusal, ask yourself two questions: are you a self employed operator (proprietor)? And do you give your log sheets to your tax preparer (or a summary of days away from home)? If the answer to both questions is yes your tax preparer is using the batch/simplified method.

Even though Circular IC73-21R9 disallows self employed people using the form/method many tax preparers still use it. They just place the TL2 figure in the meal receipt field on the tax form. They may not be using the TL2 "form" but they are still using the batch method (\$51.00 x days away from home). Under CRA scrutiny, if the field doesn't have corresponding meal receipts the entire amount can be reversed. That reversal usually costs \$2500-4000 per year. It's a significant potential liability.

The Self employed system requires receipts. Receipts cost money and lost receipts increase your taxes. It's that simple, it's that... inconvenient.

Self-employed operators who use their personal vehicle for business purposes (most do) have an even greater demand, personal vehicle log book. There is good news and bad news, if you don't have one... good news... you are in the majority (approximately 75% of all operators do NOT have a personal vehicle log book). If you do NOT have one (and are audited)... bad news... its considered "low hanging fruit" and all "estimates" can be disallowed. If you don't have a log book for your personal vehicle your tax preparer GUESSES the percentage of business use. The operator also has to provide fuel, maintenance, lease payment/depreciation etc. for each separate vehicle. That's a lot of paper!

Too many tax preparers allow clients to deduct personal vehicle expenses without a log book... year... after year... after year. Please understand, each operator carries that liability.

I trust all those who are comfortable carrying that liability will not be complaining if anything goes wrong. After all, most people never complain about unfunded liabilities anyway... right?

The main reason tax preparers and operators use it is because of simplicity and familiarity. That's the way they've always done it.

I've written about the employee/Per deum system for over five years (since my book came out in 2007). I've talked to hundreds of tax preparers and operators coast to coast, year after year.

The biggest complaint I receive from tax preparers is that: it's a lot more complicated, truckers won't learn it, my staff doesn't have the time to train operators and I have to raise my rates and loose clients. Each point is valid (except usually the loosing client's one).

The biggest complaints I receive from operators are... nobody told me, my tax preparer says it's too complicated, or my tax preparer says there's no such thing... truth, half truth and no truth.

Successful operation of any business requires proper research. Piece by piece separate the truth from the untruth, the information from the disinformation. Our website offers a 2.5 hour downloadable seminar to help in your research. It's free! Understand your business obligations and don't be left holding an unfunded, unexpected liability.