



Spec'ing Your Taxes — with Robert D. Scheper

The Disadvantages Of Tax Savings

Last article I wrote about the tax savings gleaned from the per deum system, an estimated \$8-10k per year. However, the super savings have significant drawbacks. I'll try and overview the seven disadvantages in 800 words or less.

Setup and maintenance cost

There are incorporation costs, annual renewal fees plus 2-2½ times more work for an accountant (therefore higher account-

ing fees). Many Operators cut their setup costs by incorporating via the internet and maintaining it themselves, but it's still a cost not born by the self-employed. Additionally, there may be tax implications of selling your truck into the corporation (fixed by a section 85 rollover... talk to your accountant for particulars).

Source Deductions are moneys in Trust

30-40% of Operators are still paying last year's

taxes. Payments may not be popular with CRA but they do regularly allow it. However, when an operator uses the per deum system, taxes are remitted at source before the operator even receives anything (not the usual operator way of managing personal cash flow). This can be one of the most intimidating aspects of the system (changing your cash flow methods). The bottom line is, you have the same access to cash except it is trans-

ferred in various steps (actually MORE cash because of the tax savings). It takes anywhere from two to six months before the average person is comfortable with the changes.

Bank Financing

Using the per deum system will cause an average of \$25k drop in T1 taxable income which means a probable large drop in borrowing power. Results may vary, depending on the lender of choice and how aggressive a borrower the operator may be.

CPP under contributed

According to national averages, CPP contributions will drop by something like 40%. For some this is an advantage but for others it's a disadvantage (depending on what you believe about CPP). I've had some very interesting conversations with some drivers who are convinced that CPP is nothing more than a tax. They believe that by the time they retire there will be nothing. Their opinion is not shared by me. I think there will be something... but I may not be able to collect it until I'm 75. But regardless of

personal opinions it's an impact that should be discussed. Some (if they are really concerned) voluntarily send in the "top up" to Revenue Canada.

Disability issues

A huge drop in income on line 150 of your T1 causes a huge drop in disability benefits if the unfortunate situation arises (without the appropriate coverage). Apparently (as I've been told) 95% of all disability policies are based on line 150 of your return. We strongly recommend all participants ensure using the 5% (make sure your provider knows the system).

Complex

The system is complicated. The income tax act is written by lawyers and accountants who designed it so those citizens who could afford the tax savings would be dependent on them. In my humble estimation only about 40% of operators will ever fully use the system due to its complexity, disadvantages, disinformation and unpopularity among some accountants. Training is absolutely essential for success. If you're not satisfied with the level of training...

either demand it or find someone who will meet the need.

Possible CRA reassessment liability

In my opinion reassessment liability is the most critical factor in the per deum system. Operators regularly ask their accountants/bookkeepers about "defending against CRA" or "standing behind you", concepts that usually means one thing to one

party and another thing to the other. The bottom line is, when it comes to defending the per deum non-taxable benefit... who pays for the possible court costs? This simple question separates the "Dabblers" from the committed service providers. Choose carefully, the best bet is finding someone who specializes in it, maybe even exclusively in it. The accountant must have a vested long term interest in the success of the system (not just success of their firm). The per deum requires a much closer relationship between the operator and accountant and the liability becomes much more of a joint venture than a professional burden (a statement of great debate in some circles). Not many accountants wish to accept additional work AND potential long term liability.

If you are more curious about this topic (which is loaded with controversy and disinformation) feel free to visit our web sight and download a free Seminar (2½ hours). It's PACKED with loads of information and even a couple appropriate interviews. 🌟

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