

The Disinformation in Operator Taxes

Since the publication of my book in 2007 I have had the pleasure of talking to operators and accountants coast to coast about taxes. Most of the conversations go really well, however, it has become painfully clear that disinformation is still very “normal”.

There are several things either operators or accountants still believe about taxes: first is that there are few options, second is that those limited options produce little difference. It's a little like implying all truckers make the same money, or all trucks produce the same results. It's a gross over simplification.

If a truck is specked right, driven professionally on a well paying company the results are dramatically different from one that misses on all three cylinders. The net income of the former can often times be two or three TIMES that of the latter. The same can be said about taxes.

The gross oversimplification of taxes is: self employed is the only available system that makes sense for operators. That's just not so! The Canadian Income Tax Act provides a whole range of options for reporting income, some beneficial some not much so.

The general rule is this: the easier it is - the less benefit and options you have, the more complex it is – the more benefit and options. The reason is, the income tax system was written by lawyers and accountants in such a way that average citizens would become dependant on... lawyers and accountants. It's not fair... but is anyone implying the income tax system is based on fairness?

There is good news. What was too complex for the average citizen 25-30+ years ago are now do-able (thanks to automation, internet and education).

Each available tax system has their own set of advantages and disadvantages. Self-employed is low cost and easy to set up/administer (for both operator and accountant) but incorporation - T4's and per diem is not. Self employed operators cannot use the simplified method (\$51 per day) and must retain meal receipts for all deductions (IC73-21R9). Incorporated - employees may collect a per diem (non-taxable benefit) that doesn't require receipts but requires other supporting documents and payments.

The distinction in just these two features alone can create a huge difference in net tax payable (\$7-10,000 annually). The difference is so large in fact it will create other complicated disadvantages such as: drop in annual CPP contributions, drop in disability coverage (in most policies), possible future financing problems (due to drop in taxable income), increase in complexity of cash flow and government reporting, reclassification of taxes as monies in trust rather than amount owing and the potential liability of defending the return to CRA.

Of the seven disadvantages the three most critical are: disability, financing and liability. The properly administered system is not for operators who fly by the seat of their pants.

Liability is the sleeping giant. A re-assessment could total \$10-12,000 per year. So looming is this threat, that if this potential liability is not secured I recommend you don't venture into the option.

Over the last four years I have spoken to operators and accountants coast to coast and investigated several cases. Simply put accountants and operators too often are not compliant and CRA is not consistent in the application of rules. It appears Canada has regions with different emphasis on compliance and understandings of the rules (which gives a false sense of security in the future). This means that truckers talking over a cup of coffee are sometimes innocently spreading disinformation to their friend.

At the going rate it may take as long as five to eight+ years to assist operators (and sometimes the CRA) in the proper application of the Per diem system. However, once it is universally applied across Canada (in its auditable form) the industry liability will be minimized or even eliminated.

This requires the proper education of both the operator and tax preparer since the Per diem system requires the full co-operation of both.