

# The three best places to look for tax savings

So you've spent the last month ripping your house apart and running your hands under the bunk mattress for any shred of paper that might justify a tax deduction. Or maybe you're diligent about keeping receipts and feel pretty good about your filing system.

Either way, you're interested in lowering your tax obligation, and that's good. Taxes are too high in this country to not seek out ways to reduce the burden. Whether you're incorporated or a sole proprietor, here are my three favourite places to look for tax savings:

## At the point of sale

You need a new pen to fill out your logbook, so you buy one at the truck stop for a dollar. You stuff the receipt in your pocket. At least, that's what you remember.

Throwing away that receipt is like throwing away hard earned money. Without a receipt, the GST/HST is no longer refundable to you – there's five to 13 cents right there. Without a receipt, you can't claim the pen as a business expense against your gross income.

If you earn between \$35,000 and \$70,000 a year, you're paying approximately 35% to 40% income tax. Because you're not able to deduct the dollar for the pen, you'll have to pay the resulting income tax of 35 to 40 cents tax. So that cheap pen actually cost you \$1.40 to \$1.53. Whether you're a sole proprietor or incorporated, the result is the same.

## In the cab

So think about it. How many times have you pulled cash out of your pocket and not kept the receipt? How many times have you bought personal and business items together and the receipt is in your personal records and not your business books? How many times have you used your personal credit card because your business card wasn't handy and not charged your company back appropriately?

Talk to your accountant about how to organize receipts where you do most of your day-to-day business: in the cab.

We give our clients accordion-style file folders marked with categories like meals and showers, fuel, etc.

Four times a year, they put the whole folder – receipts inside – into a big envelope and courier it to us (we pay the freight). This system helps them keep receipts organized in the cab, makes it easier for us to prepare their returns (most file quarterly), and allows us to focus on each quarter of the business year and not just the year-end.

## On the tax return

Every time an expense item is missed or an entire expense type or category is not taken, the cost to you is much more than the original cost.

For example, Canada Revenue Agency has again changed the write-off rate on computer equipment. If you bought a computer after March 18, 2007, the computer

## Tax Talk

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belongs in Class 45 and has a 55% CCA rate. That's a change from the 45% rate established in March 2004; prior to that, they were 30%.

Have you been doing it right all along?

Another expense that's often handled incorrectly is your health coverage. A CRA auditor I met recently was going to disallow this claim for one of our clients. Previously, you were to include your health benefit premiums directly on your tax return as a medical expense. Now you can expense

this cost directly on your business income statement.

This translates into quite a bit of tax savings. The medical expense deduction is reduced by 3% of your net income.

This carve-out greatly reduces the deduction and often, unfortunately, prevents any sort of claim. Now you get to expense 100% of the cost, you get to save tax every year on this deduction.

Be careful though, with everything on your tax return, there are a few rules and guidelines to follow. Your benefit premium likely includes life and disability insurance. If so, the amounts included in your monthly payment for these should be backed out.

Additionally there are rules capping the amount of the expense you can write-off for yourself, your

spouse, and children. Unless you're an incorporated owner/operator, for whom the deduction limits don't apply.

It's hard to keep up with these changes yourself. It may cost a little more money, but an experienced accountant can comb through the tax codes to help ensure that all possible deductions are taken advantage of and can easily have a direct pay back to you. That way you can focus on collecting and organizing those receipts. □

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