TAX TALK

An accountant's guide to cutting fuel costs

Tax Talk

Scott Taylor

Slow down. Don't over-rev the engine. Cut your idling time. There's no shortage of advice from fleet managers, driver-trainers, or even your own gut about how to control the cost of fuel.

But what does your accountant have to say?

I don't drive a truck for a living. But I do see good ideas and decisions reflected in the balance sheets of owner/operators and small fleet managers who are finding ways to reduce the impact of volatile fuel prices on their business.

Talk to your accountant about fuel-saving strategies off the road. Here are four questions to ask:

What percentage of my operating cost is diesel fuel?

Fuel traditionally represents 15% to 30% of a carrier's operating cost. A recent report from the Ontario Trucking Association says that figure is closer to 45% today. At many carriers in Canada and the US, the cost of fuel outstrips the cost of labour.

Because fuel is rising at a greater rate than other operating expenses (the price of diesel has jumped 250% over the last five years), it makes sense to monitor fuel as a percentage of your overall operating cost. If you receive a fuel surcharge, or are setting rates, it gives you a more precise idea of whether what you're charging is enough to recoup your cost.

Should taxes affect where I buy my fuel?

When you buy diesel, various taxes are buried in the price. The US and Canada both levy a federal fuel tax; in Canada, you pay GST or HST as well.

Then there are state and provincial taxes which vary from jurisdiction to jurisdiction.

You don't really know how much fuel costs unless you take all the taxes out.

If you're an owner/operator leased to a carrier that's responsible for fuel tax and reporting for your vehicle, your only concern is finding the lower pump price.

But if the carrier charges you when you owe fuel taxes or pays you when you're due a refund, you may be able to reduce costs by purchasing fuel in jurisdictions with the best net price (we post an up-to-date fuel-price comparison chart at www.tfsgroup.com/tfs/wheretobuyfuel.html).

Is my draw a fixed cost or a variable one?

With fuel through the roof, insurance premiums continuing to increase, and normal inflation, one of the few expenses that is probably not heading upward is your salary.

If you're an incorporated owner/operator, your labour costs are the total of the T4 wage expense and dividends you pay to yourself. If you're a sole proprietor, your labour cost is your net profit – the number at the bottom of your P&L that you just paid tax on.

I know a lot of business owners wrestle with whether to take home less in order to pay for unanticipated costs. Faced with raising prices, cutting employees, or simply eating the cost themselves, they choose the latter. Maybe that's a reality of being self-employed.

Or perhaps, if you commit to paying yourself $60,000 a year, you draw that $5,000 a month no matter what.

In addition to paying household expenses, you continue investing a portion of that income so each contribution compounds and strengthens your personal savings. And you find other ways to save on the business.

What does my contract say about fuel surcharges?

Among owner/operators and the carriers they're leased to, the debate over fuel surcharges has moved beyond how they are calculated to how they are treated on broker settlement statements.

Some carriers show fuel surcharges on their broker statements with the revenue, others show it as a reimbursement.

A surcharge is an additional, variable cost that's added to the basic rate for the service.

It's separate from the rate, fluctuates with the price of fuel, and in theory will go away once fuel prices decline.

In my opinion, it's not income. Reporting it as such creates additional, unwarranted expenses for the owner/operator.

For example, the carrier may charge its owner/operators for insurance based on their gross income.

Factoring a surcharge into this figure would inflate the insurance fee and unfairly reduce the fuel surcharge's affect of compensating for higher fuel costs.

Fair or not, some carriers will do whatever they want.

It's hard to pin them down to broker agreements that they themselves wrote and generally are able to change at any time.

When it comes to comparing carriers to work with, you can't only look at one number but must consider the whole pay package.

If your carrier isn't treating you fairly with fuel surcharges, perhaps it's time for a change.

There is no point in staying loyal to someone that's not loyal to you.

Don't believe the old trucker's tale that all carriers are the same. But don't get fooled by one part of a pay package, either.

Review all the charges and paid-for items to determine how much you'd make at another carrier versus where you are now. Your accountant should be able to help you with this. □

– Scott Taylor is vice-president of TFS Group, a Waterloo, Ont., company that provides accounting, fuel tax reporting, and other business services for truck fleets and owner/operators. For more information, visit www.tfsgroup.com or call 800-461-5970.