

Tax
Talk

SCOTT TAYLOR



Solving an age-old problem

I saw a report recently that said the average age of a truck driver in this county is 47, and almost 30% of the driving force is 55 or older. That makes truck drivers one of the oldest workforces in Canada.

But if you're an average-aged owner/operator you might also have a way to skew the numbers in a younger direction. In fact, he or she might be sitting on your couch right now, eating your food and waiting for the laundry to finish.

Every summer I hear from clients with tax and accounting questions about how to bring a kid onto the payroll because they need a driver or someone to help around the shop or office. In addition to filling an open job, hiring your son or daughter can generate big savings from a tax standpoint, especially if you're splitting income among family members who are in a lower tax bracket than you are.

Rules for relatives

Canada Revenue Agency has specific rules for hiring relatives, but above all there are three guidelines to remember.

First, family members must actual-

ly do the work for which they are paid. It can't be some frivolous project that you wouldn't otherwise hire someone else to do.

Second, CRA defines a "relative" as someone who is connected by blood relationship (like a father and son), marriage, common-law partnership, or adoption. You can be related to a corporation if you're related to one or more of the people who control the corporation, or when a corporation employs someone who controls more than 40% of the corporation's voting shares.

Finally, you need to determine whether you have make source deductions like Employment Insurance and/or Canada Pension Plan. It's not always clear.

The Employment Insurance Act states that employees who are related to their employer – be that a sole proprietor or corporation – may not be eligible for EI benefits and should not have EI premiums deducted from their pay because they do not deal with each other "at arm's length."

On the other hand, some employees who are relatives may indeed qualify for EI. For instance, a related employee may be insurable if it's reasonable to conclude that you would have hired a non-related person to do the same job at a similar rate of pay.

What is reasonable? Consider these three CRA criteria:

How much? The pay, terms, and other conditions of the job should be in line with what a non-relative would accept for similar work.

How long? The timing of a job – when it occurs and how long it lasts –

should correspond reasonably to the length of time such work should take to perform, and to the employer's normal business cycle and history.

How important? Is the job really necessary to the business? Have you historically hired an employee to perform this work?

If you're not sure whether you need to deduct EI premiums for a relative, ask CRA to rule on your case. Rulings clarify your obligation as the employer and will define whether your employee is covered should he make an EI claim (due to lay-off, pregnancy, or sickness).

To request a ruling, send a letter or a completed Form CPT-1 to the nearest tax services office no later than June 30 of the year following the year

in which the employment occurred. If you have a payroll account and are registered on My Business Account, you can use the "Request a CPP/EI ruling service" online.

Other business

I've helped countless owner/operators and small trucking businesses bring the next generation into the fold, and these days I'm seeing more clients hire a spouse, parent, or other grey-haired relative who will do nothing to reduce the average age of Canada's driving population but certainly can contribute to the business.

Before you take that step, ask your accountant to walk you through the process including how to structure an employment agreement that will stand up to scrutiny in an audit – and at the next family dinner. ●

Scott Taylor is vice-president of TFS Group, providing accounting, bookkeeping, tax return preparation, and other business services for owner/operators. Learn more at www.tfsgroup.com or call 800-461-5970.

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