

TAX TALK

Surprise! It's in the contract

As an accountant, I spend a lot of time looking at fine print. Hey, someone has to do it. Most people are put off by legal gobbledegook on a page (probably the writer's intent all along).

While reviewing finance contracts and other legal documents is part of my job, occasionally I'm reminded why it's so important for clients to go over these documents themselves and to raise questions when something doesn't make sense.

Just because someone sounds smart on paper doesn't mean he's right. Unfortunately, it's not that uncommon for us to find mathematical errors, incorrect interest rates, confusing guarantee terms, missing pages, illegible type – astonishing mistakes in big-dollar contracts. Here are some examples:

Bad math

A few years back, we had a client who was getting ready to purchase a new truck. He spent months spec'ing out his vehicle, shopping for a good price, and compiling detailed finance quotes. He found the truck he wanted, but something in the finance contract didn't add up so he asked me to check it over. The F&I guy at the dealership had plugged in the right numbers on the purchase price, but the interest rate was different from the one my client was quoted. It would have resulted in a \$6,000 overcharge.

Fees

Keep your eye open for unnecessary administration or processing fees. These could pop up on the bill of sale or invoice and have innocent names like "filing fees" or "miscellaneous" charges.

With what trucks cost these days, you should negotiate to either reduce or eliminate them. If you feel like you're talking to a brick wall, be ready to take your business to someone else. Don't think you can always get a good deal with "one-stop shopping." There are lots of dealers out there with trucks to sell.

Penalties

When reading the fine print, watch for early payout penalties. Banks and finance companies handle these differently: an open loan or line of credit at a bank would carry none, while many equipment finance firms charge 5% of the outstanding principle (they may but waive it if you refinance your next truck with them). What's quite common in leasing is being forced to pay the outstanding balance plus all the remaining interest on the loan up front, an unpleasant surprise.

Guarantees

If you're a sole proprietor and sign a sales agreement, that piece of paper is a personal guarantee that you'll pay the lender back.

If your business is incorporated, you'll be asked to sign either

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a continuing or specific guarantee to be approved for a loan or lease. A specific guarantee deals with only the equipment you're buying and a continuing one adds all subsequent purchases or leases made with the finance company into the equation.

In both cases, the equipment serves as collateral. Often a bank will use a general security agreement, which holds all of your personal property as collateral. Yet another type is known as a cross-collateral guarantee: if you have a few loans or leases under one roof and default on one, the firm can hold your other equipment as collateral.

Restrictions

If you are thinking about buying a truck and leasing it to another driver, read your contract carefully as many finance companies don't allow this.

Carriers flunk, too

Finance companies aren't the only ones guilty of bad math. A few months ago I was contacted by an owner/operator who was on with a US-based carrier. The carrier figured his fuel tax and said he owed \$1,119.82.

"I'm just a trucker and I'm not very smart about these things," the owner/operator said, "but something about these fuel tax charges doesn't seem right. Can you look them over?"

I asked him to send me all the details he could. We ran the mileage and fuel through our system and, according to our calculations, the owner/operator didn't owe the carrier money. He should have received a small refund instead.

Now, maybe the carrier made a clerical mistake. Maybe the information the owner/operator provided wasn't 100% correct. Still, a thousand bucks is a thousand bucks. I think the owner/operator was *this* close to getting ripped off, but his willingness to ask a "dumb question" and get qualified help saved him a lot of money and aggravation. And yes, he moved on to another carrier.

I know it's tough to find time to review statements and legal documents, and not everyone has the confidence to act when something doesn't add up.

The payoff of getting it right, though, goes beyond what you owe (or is owed to you). It includes fairness and trust. □

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