

The bulletproof tax return

Do you feel it? You may not (yet) as the weight of the world seems to be on trucking's shoulders already, but there's something else clinging to your back: a target. Canada Revenue Agency (CRA) has determined that the trucking industry should get more scrutiny from auditors this year. I questioned an audit supervisor recently and she said the industry is on the hot seat.

When the CRA focuses on a specific industry or group, it's called a special project audit. Unfortunately, trucking has a history of non-compliance and mistakes. If you're a small fleet or owner/operator, there's a good chance a CRA auditor one day will set his sights on you. When he does, you want to be bulletproof.

Audit types

If you've ever received a letter from CRA asking for information to support an item on your tax return, congratulations. You've been audited. This is called a desk audit. Open the envelope, read the letter, have your accountant review it, and respond before the deadline.

The second category is the field audit, where you're asked for your full accounting records. In some cases, an auditor may want to meet in person. Always involve your accountant as the first step in responding to a field audit.

The auditor will want to match your carrier broker settlements or

Tax Talk

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sales journals to your bank records and check expense receipts against cancelled cheques and credit card statements. He'll look to see that you did in fact pay for the items you've claimed and that your expenses are reasonable.

It's important for the auditor to understand what is "reasonable." His caseload probably includes lots of different businesses, so don't assume that he understands trucking. Explain what you do, where you travel, and safety requirements, carrier requirements, and customer requirements so he has the perspective he needs.

Grey Areas

Now begins the fun of supporting expenses as legitimate business expenses. For the CRA, there are no grey areas here, only black, and they will aggressively challenge these types of expenses:

Meals: Meal claims are one reason CRA has been auditing trucking operations so intently. The requirements have changed in recent years and there's still some confusion.

As a sole proprietor, your meal claim must be based on receipts. If you're claiming sole-proprietor meal expenses based on logbooks, here's what the CRA's audit letter will say:

'The simplified method for meals is a CRA policy for transport employees set out in the Income Tax Act. This way of calculating meals is not allowable for truckers/inter-liners that are self-employed. Self-employed individuals are allowed to claim meals for their travels under the Income Tax Act, but you have to keep full records of your trips including receipts for meals consumed and logs recording each trip, total distance traveled and time spent away from home.'

Both the TL2 form and the CRA information circular describing meal claims are for employees only. For years, CRA allowed the sensible argument that if employee truck drivers can claim meal expenses with the simplified method of reviewing logbooks, then sole proprietor truck drivers should be able to do the same. Not any more.

The only way to claim meals without receipts is to incorporate. By incorporating, your meal claim is safely and legitimately calculated on the TL2 form based on your away-from-home time recorded in your logbook.

Again, the CRA's position on meal claims for sole proprietors: receipts, receipts, receipts.

Service vehicle: To fully support your claim you must keep a record of the total kilometres you drive in a

year (ie. your Jan. 1 and Dec. 31 odometer readings) and detail the kilometres you drive to earn business income. You must list the date, destination, purpose, and the number of kilometres you drive for each trip. What about leased service vehicles? I hear it over and over: 'I lease my service vehicle so I can write the whole thing off.' Or 'I got a pick-up so I can write the whole thing off.'

Not true. You can claim 1% to 100% of your service vehicle expenses if your actual business use supports it. You must back up your claim with details on how you used your vehicle for the business.

Expenses at home: Home phone, cell phone, satellite radio, uniforms – you can deduct these expenses or a percentage thereof only if they were incurred to earn income. You must be able to show that you spent the money as part of your business operations.

An experienced tax advisor specializing in trucking can show you how to substantiate these and other deductions so they're not denied. No one likes the feeling of a target on his back. But it's much less of a concern when that target is taped to a Kevlar vest. □

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