TAX TALK

Meal deduction rates make 2011 a year to incorporate

About five years ago, Canada Revenue Agency began denying expense deductions for owner/operators using the "simplified method" to calculate meal expenses. Instead, CRA said actual receipts showing the amount of the meal purchased are the only acceptable way to support the claim.

CRA said only employees whose main job is long-haul trucking are entitled to use the simplified method to calculate their meal expenses. The simplified method is based on a flat rate of $17 per meal, to a maximum of three meals a day, with no receipts necessary. The logbook is sufficient proof to verify a driver's away-from-home time.

Owner/operators are not employees, they're independent businesspeople.

The meal deduction issue is one reason we're seeing more owner/operators incorporate and become employees of their own business. They are accepting a more complex filing process for the tax advantages of creating a corporate entity that's separate from their personal finances.

From a meal-expense standpoint, these advantages are getting bigger every year. CRA will increase the meal claim percentage for long-haul drivers from 75% in 2010 to 80% in 2011. An owner/operator who can use the simplified method can save substantially and eliminate the hassle of keeping receipts for each individual meal away from home.

Let's look at the numbers.

If you're away from home five days a week and 50 weeks a year in 2011, your maximum meal claim would be $10,200 (50 weeks times $51 times 80%). What's the total dollar value of meal receipts you think you'll collect next year? There's no way it's even close. You could be paying $2,500 to $3,500 more in tax by not incorporating and claiming meals this safe and proven way.

Some sole proprietors use the simplified method to claim meals anyway and hope to not get caught. But the risk is huge. A meal claim of this size getting denied will surely lead to big reassessments.

Those of you looking to push the envelope a little may want to reconsider paying yourself a travel allowance or per diem. Once again, this is only for incorporated owner/operators.

A per diem paid to you by your corporation is a tax-free benefit. You don't report it as income on your personal return. As a truck driver on the road 50 weeks a year, it can really add up. Let's say your company policy on meal and travel expense reimbursement is $80 per day. That could put as much as $400 a week – $20,000 a year – into your pocket tax-free.

You can reduce your taxable income. You would have to earn approximately $24,000 in gross salary to net $20,000 take-home pay. If your household budget requires you to bring $40,000 or more into the home, you can lower your taxable income from salary or dividends and make up the difference with the non-taxable travel and meal allowance.

Your corporation would save payroll-related expenses (CPP, EI, WSIB) because it would pay you less taxable income even though the net amount you take home – salary plus per diem – would be the same.

Like any other strategy designed to reduce your tax obligation, you need to take steps to ensure that your actions will stand up in case of an audit. For example:

• The per diem amount must be reasonable. Is $80 reasonable? That's for you to judge, but it's the standard our own federal government uses to compensate civil service employees for travel expenses. A CRA auditor or a scientist with Environment Canada may not be away from home 250 days a year like you are, but the same principle (and per diem amount) applies.

• There should be policies and procedures for expenses. Your corporation should require you to complete travel expense forms and submit them in order for the allowance to be paid. You need to be diligent about following these procedures and not just write cheques to yourself or take cash for allowances. A proper paper trail will prevent CRA from poking a hole in this strategy.

If you have employees other than yourself, you must pay the same allowance to all who qualify. It cannot be just for you.

Cutting your taxable income in this manner could save you thousands of dollars in tax each year. If your accountant tells you incorporating does not have any advantages or benefits for you, give me a call to get the real answer. ☐

– 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 information, visit www.tfsgroup.com or call 800-461-5970.