

Tax Talk

Good news! You're in business

But don't leap in without doing your homework

Truck News is just full of good news lately.

I'm reading how Class 8 truck orders are setting highs not seen in years. Several carriers are planning to increase driver pay. Freight volumes are up and capacity is tight.

It's no surprise that we're getting calls from drivers who want to become incorporated owner-operators.

Over the years I've written many columns about how to incorporate as well as the pros and cons of being a sole proprietor. Structuring your business is one of the first decisions you'll make when you go out on your own.

But it's not the first. Not even close.

Here are some other questions you should think about.

Whose idea is this?

In some cases, drivers are being asked to incorporate before they hire on to a carrier.

Carriers tell drivers to incorporate because they want a worker but not an employee. Having an employee means having to hold or report funds for EI, Canada Pension Plan, and workers' compensation. Payments to a contracted worker are considered a sub-contracting expense and are not payroll.

As a contracted worker, you're responsible for keeping your own

records and paying your own income and self-employment taxes to CRA. Typically, you are also responsible for insuring yourself should you become injured.

Incorporating should be part of a broader business plan and not a condition of a contract.

Do you like the business?

One of the frustrating realities for new owner-operators is that every hour spent managing taxes, payroll, expenses, equipment, billing, and customers is time you can't be on the road earning money.

But a business has a life of its own that needs care and feeding.

As a separate legal entity, the corporation conducts the business transactions. It signs the contract with the carrier, load broker, or customers. It makes money, showing income from trucking and other services, and spends it, paying expenses incurred while running that business.

Your responsibilities for managing it properly start from day one.

Say you forget to contact CRA to register for a GST/HST account. Delays are costly – CRA will back-date registrations for only 30 days. If you bought your truck in September

and haven't gotten around to setting up an account, you can say goodbye to most of your GST/HST refunds from fuel, repairs, etc.

Late filings, mistakes on tax forms, and ignoring notices are signs that you don't understand how to run a business, or worse, you're in the habit of not following the rules. Did you actually sit down with someone and discuss whether you'd be better off as an incorporated owner-operator or sole proprietor? Or did you plow ahead based on advice from buddy-what's-his-name at the truck stop?

You don't need an MBA but you do need to commit to managing the business. The planning and paperwork are worth it compared to the mental and financial toll that a scattered business life can take.

Can you make a living?

One of the benefits of incorporation is the potential for tax savings.

The corporation can deduct your wage or "management fee" from earned income. What's left after expenses is taxed at a corporate rate, which is a much smaller tax rate than we real people have to pay.

For me to calculate potential income tax savings from incorporation, one of the biggest factors is how much money you need to run your home (mortgage payments, groceries, utilities, car payments, eating out, etc.). If there's nothing



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left for the business after you draw your management wage and pay your household expenses, the corporation would have no income left to be taxed at that lower rate.

There's a lot of optimism for 2018 but you're in this for the long haul. What works for one owner-operator may not apply to you. Talk to a qualified accountant to find out how to make the right choice. **TN**