Tax Talk
SCOTT TAYLOR

How times have changed

After helping quite a few clients incorporate over the past few months, it got me thinking about how times have changed. Fifteen years ago, in 2001, 36% of our owner/operator clients were incorporated and employees of their business while 64% were sole proprietors. Today, the percentage who are incorporated is 67% and 33% are sole proprietors. Almost an exact flip-flop.

Our clients are not unique.

Whenever I speak to owner/operator groups I ask for a show of hands to see how many in the audience are sole proprietors versus how many are incorporated. Incorporation is always more popular.

So what has driven this change?

There have been many market forces over the years, everything from insurance to employment and liability issues to tax advantages.

The meal deduction issue is one reason we have seen more owner/operators incorporate.

Once CRA decided that sole proprietor owner/operators could not use logbooks to support their meal claims and had to use actual receipts, a landslide of owner/operators changed their business model.

They were willing to accept a more complex filing process for the tax advantages of creating a corporate entity that's separate from their personal finances.

Meal claims

An owner/operator who travels far enough and long enough away from home can use the simplified method (logbooks and TL2 form) to substantially save on taxes 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 in a year, 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 in a year? There's no way its 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 continue to use the simplified method to claim meals anyway and hope to not get caught. A meal claim of this size getting denied will surely lead to big reassessments.

Travel allowances

Those of you looking for a further benefit beyond the traditional TL2 may want to consider 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 at least $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 and 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 make sure your actions will stand up in case of audit. For example:

- The per diem amount must be reasonable. Is $80 reasonable? Maybe it should be more. Or less? That's for you to judge, but our own federal government uses $95 per day 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, times have changed. Time may be running out on 2015, but it's definitely not 2001 anymore.

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.