TAX TALK

The Answer Man has a few questions of his own

Is incorporation the right strategy for you? There's no one-size-fits-all answer.

Tax Talk

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Reviewing tax bills with owner/operator clients often leads to questions about incorporating. Folks are curious and want to know, "What would I have paid if I was incorporated?"

Instead of giving them a complex, detailed, and probably confusing answer, I've learned to respond with a few questions of my own: Did you save any money this past year? *Could* you have saved any money this past year? Does your spouse work and if so, how much money does she make? How many days were you away last year (so I can calculate a meal claim)? It's the start of a conversation that ultimately will lead to a good decision about how that owner/operator should structure his business.

If there's one thing I've learned, it's that everyone's circumstances are different, there's no one-size-fits-all solution, and you should have all the facts before you make up your mind about anything.

The problem is, when it comes to owner/operator taxes and finances, the facts get convoluted with opinion and buried under blanket statements. Half the time, it seems like the person asking me whether he should incorporate has already made up his mind based on something he's heard or read. He just wants me to confirm it.

Just last week I was talking to a new owner/operator and when the conversation naturally flowed to incorporation he told me he read that an owner/operator doesn't need to incorporate until he owns three trucks. I was flabbergasted. If it were that easy, we could all save ourselves a lot of time and get down to the only question that really matters: how many trucks do you own?

I told him I would never say anything like that. Sometimes, of course, people hear only what they want hear, or they only hear part of the whole message.

So I circled back around and asked some questions about this new owner/operator's business and personal life. He's divorced, and his kids are grown and living on their own. He's going to work at a long-haul carrier that will keep him out on the road for three weeks at a time. He rents a small apartment and his personal vehicle is paid for.

I said, "Wow, it sounds like you don't need a lot of personal spending money to maintain your lifestyle. Are you going to make any changes?"

Nope, he said. His priority is to drive as much as possible in order to make as much money as he can, and build up his savings before he's too old to do so.

Based on the carrier pay package, this owner/operator's goal is to gross about $200,000. After direct expenses (fuel, insurance, licence, payments and maintenance), he should have about $80,000 net income left.

If he's a sole proprietor, he makes whatever the truck makes, so his personal taxes will be based on $80,000.

I asked if he knew how much income tax he'd have to pay on $80,000. He wasn't exactly sure, but explained that he had made about that much as an employee the last few years, so he had some idea based on all the deductions from his pay stubs.

"Probably a lot," he said. I did some quick calculations and told him it would be roughly $23,000. Yup, that's a lot.

Then I asked how much of that $80,000 would he spend on rent, groceries, and personal living when not on the road. I explained the reason for asking was to do a corporate tax estimate. If he were to incorporate, his personal draws would become his income and any leftover money would stay in the hands of the corporation.

He estimated his draws would be $30,000. Back to my quick calculations, I determined that his personal tax bill will be $6,400 and his corporation's tax bill will be $7,800. That totals $14,200, a whopping $8,800 less than this owner/operator would pay as a sole proprietor.

Yup, that's a lot less. Next month we'll go over a few answers to my questions and how different answers explain why buddy on your left is incorporated while buddy on your right is not. ☐

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