

## Backgrounder Truck Driver Meal Deductibility January 2007



### Why the Concern?

Canadian truck drivers can deduct only 50% of their meal expenses when calculating their taxable income each year. This compares to 75% (soon to be 80%) for their American counterparts. This is patently unfair to one of the largest groups of workers in Canada, many of whom, as a requirement of the job, spend much of their time away from home and must purchase all their meals – not just one per day like an office or factory worker – from restaurants and truck stops.

### Background

In 1994, Canada reduced its meal expense deductibility rate, across the board for all classes of personal taxpayers, from 80% to 50%. The government's stated reason at that time was to bring Canadian rates into line with those in the US. However, in 1999 under the Clinton administration's tax relief strategy, the US established a phased-in increase in rates for drivers subject to federal hours of service regulations. These rules have increased meal deductibility rates for drivers to 75% in 2006, and will fully restore them to 80% in 2008. Meanwhile, in Canada, the rate remains unchanged at 50%, even though the Canadian Trucking Alliance – for more than 10 years – has been asking the federal government to revisit the issue and increase the deductibility rate for drivers as the US has done. Drivers have two options when claiming meal expenses on their tax returns: keeping receipts and claiming actual expenses or using a flat rate specified by the Canada Revenue Agency. In both cases, only 50% of total meal expenses for the year can be deducted when calculating taxable income. The Canadian maximum (for 3 meals) receipt-free per diem is currently \$51 (or the Canadian equivalent of \$51 USD if the driver is operating south of the border).

### What This Costs Drivers

Our calculation of the tax impact on drivers (see attached) is based on the following assumptions:

- We assume that the driver is on the road 5 days per week, for 50 weeks in the year and uses the simplified (receipt-free) method to claim \$51 per day.
- The driver's income (before tax deductions) is \$50,000 per year, which is in line with the Statistics Canada 2006 estimate of earnings for long-haul drivers.
- For purposes of this calculation, we do not attempt to break down what an individual driver might claim for other deductions such as RRSP contributions, union dues or child care expenses. However, we factor in a total of \$1,500 that the driver claims for these other deductions.

Based on these assumptions, and applying the *average* combined federal-provincial personal income tax rate for 2006, the 50% meal deductibility threshold would cost Canadian drivers about **\$1,300 per year** more in income tax than they would pay if they could deduct 80% of meal expenses. However, at the *highest* combined federal-provincial rate (Quebec) **the tax penalty to drivers would be almost \$1,500.**