Chapter 11

MANAGING MONEY

BEST PRACTICES FOR HEALTHY CASH FLOW, DEBT AVOIDANCE AND IDENTITY PROTECTION

It's important to create a separate bank account that will be used to manage the income and expenses of your business. All income from your trucking business should be deposited there. In addition, trucking expenses should be paid out of this account. In the event of an IRS audit, having personal finances mingled with your business could cost you thousands of dollars. In addition, it will be impossible for you and your accountant to analyze your business accurately if your personal finances are mixed in with your business.

Every month you should write a "distribution check" or make a direct transfer online from your operating account to your personal checking account to cover your personal living expenses. The target amount can be determined by looking at the monthly personal and family cash requirements shown in your budget.

RESERVE ACCOUNT

Saving is not easy. It's much harder, though, when you deny the inevitable. Remember AIG? American International Group's fatal exposure during the financial crisis of 2008 was insuring bonds blindly based on subprime home loans. When it came time to pay up, AIG had its pants down. It had to rely on a $183 billion taxpayer bailout to honor its commitments.

Like insurers and banks, you're subject to developments that could threaten your livelihood. At the very least, you know your equipment will wear out. Smart owner-operators save for maintenance in proportion to miles run. See Chapter 17 for recommendations for savings rates per mile in proportion to the age of your truck.

The best owner-operators have at least $5,000 in reserve before they ever go into business. The purpose of the reserve account is to set aside money for large or unforeseen items that could put a substantial drain on your operating cash, such as major maintenance items, tires, quarterly estimated taxes and insurance deductibles.

This money also can be used for a down payment on your next truck purchase or improvements to your existing truck. It's also to tide you over until you finish training, hit the road and finally get that first settlement check.

CASH FLOW PROBLEMS

A few sure ways to avoid financial trouble as an owner-operator:

DON'T TAKE CASH ADVANCES. When they become owner-operators, many drivers carry forward the company-employee habit of taking weekly cash advances for expenses and, unfortunately, waste the cash on unnecessary accessories, entertainment and other items that aren't in the budget. Owner-operators who manage their cash this way never are satisfied with their settlement, from which advances are deducted, and often can't figure out where their money is going. In addition, transaction fees can add as much as 10 percent to the advance. The best owner-operators never take cash advances; they use their business operating account to manage cash flow.

AVOID BEING OVER-LEVERAGED. Back in 2005, free-wheeling lenders and home buyers thought housing prices would rise forever. Lenders made ridiculously large loans to borrowers with ridiculously low incomes and credit ratings. It was just a matter of time before widespread defaults would bust everyone's bubble. It can be easy for an owner-operator to rack up too much debt. A large truck loan with double-digit interest is bad enough; throw a few maxed-out credit cards in the blender, and you've got a deadly concoction. Successful owner-operators never take on more debt than they can manage to repay on a regular schedule.

AVOID OVERDRAFTS. There's nothing like logging in to your bank account to see a negative balance and outrageous overdraft fees. Numerous banks use a tiered structure for those fees; they go up as more checks bounce. And some banks have developed keen memories. That check that bounced a year ago could mean your next mistake will trigger the tiered rate.

• *Monitor your account.* Record every check as soon as it's written. Don't forget debit card purchases. Develop a system for logging automatic monthly drafts, such as for utilities, whether it's an item in a spreadsheet, a note on a calendar or a future entry in your checkbook.

• *Use overdraft protection.* Most banks offer this service, which automatically draws from your savings or credit card account to cover a bad check. If using savings, you obviously need to keep a good stash to make it work. Linking to a credit card is a less favorable option, but if it's paid off quickly, it's still a lot less costly than bouncing a check.

• *If you don't have online account access, get it.* Even if you don't pack a computer on the road, once you're signed up at your bank or credit union for online access or for mobile banking via your smartphone, you can manage your finances anywhere you have web access or a cell signal. That includes checking your balance and cleared checks, as well as moving money from one account to another.

INDEPENDENTS, USE A FACTOR. If operating under your own DOT authority is your intention, consider using a factoring company, or factor, to assist in the burdensome process of payment collection to avoid cash flow problems. Factors offer independents access to invoiced amounts from loads hauled as quickly as 24 hours after delivery. Competition has reduced factor rates below what many brokers charge for their quick-pay option;

also, factors have expanded services to include providing access to broker credit information, collections and accounting services.

There are two types of factors. With **recourse factors,** ultimate responsibility for collecting from the broker or shipper on the invoice remains with the owner-operator. **Nonrecourse factors** are the opposite, and since they assume responsibility for collecting, the rate (typically 5 percent) they charge will be higher than that of recourse factors.

CREDIT CARDS. It is useful to have a business credit card. However, as with the average person, many owner-operators get into the trap of spending more money than they should because they can. If a credit card balance is not paid off at the end of each month, the interest charges easily can exceed 18 percent.

You'll get the best rate on credit cards, as well as other forms of lending, by keeping a high credit rating. Federal law now requires each of the three major credit reporting companies to send you a free copy of your credit report, on request, once a year. Visit www.annualcreditreport.com.

If you're going to use credit cards, reap the benefits of use by selecting one with a rewards program. Many credit cards have programs that reward use of the card with merchandise, travel credits or other incentives. For business use, cash-back rewards are usually the most measurable and cost-effective. Bankrate.com offers comparisons of current rewards and other terms for leading cards. Study offers carefully because high annual fees and interest rates can wipe out the value of rewards.

ALTERNATIVES TO CREDIT CARDS

Comdata and similar fuel cards are available to independents looking to combine maximum fuel discounts with the accounting aspects of a debit card tied to a traditional bank account. For single-truck and other small fleets, the Comdata discount fuel network can be opted into for discounts off the cash price. As part of Mastercard's Maestro point-of-sale network, all Comdata cards are usable anywhere the Maestro logo appears.

A similar product is the TCH fuel card. Another is the FleetOne Truckers Advantage card for Owner-Operator Independent Drivers Association members.

FUEL CARD RESOURCES

Comdata: www.comdata.com
FleetOne Truckers Advantage: www.truckersadvantage.com
TCH: www.tch.com

LOOK FOR BIG UPSIDE POTENTIAL

Before the housing market showed signs of impending doom, a scattered handful of clever guys studied mortgage data that seemingly smart people overlooked, preferring to stick to business as usual. The few independent thinkers, and later others, placed virtual bets that trillions of dollars in home loans were going to go bad within months. They could lose a little if they were wrong, but could make fantastic profits if they were right. They were.

Most owner-operator businesses stick to a leased operation with ordinary freight. That's fine for an operator who's doing the basics and satisfied with his net income. Those who stand out in terms of large income, though, almost always have grasped opportunities others overlook. It could be shippers ripe for the picking by a small independent operator. It could be niche hauls that require special trailers, elaborate securement or tedious government clearance. Making these moves requires risk, money and time, but the return can be substantial.

Such opportunities increase on the recovery end of economic cycles. It's easy in the flush of good times to forget lessons so clearly illustrated during hardship. It's best to have a good memory.

INCOME TAX AND OTHER TAXES

GOOD PLANNING AND RECORDKEEPING HELP YOU KEEP TAX BILLS LOW

Among the biggest challenges in operating your business is understanding how you are taxed. This is an area where many new owner-operators run into problems. You can avoid any big surprises on April 15 by using good planning and recordkeeping throughout the year.

As an owner-operator, you now are responsible for paying your taxes yourself and calculating the net profit for your business. For anyone who was a company employee, this is a major change. It was your employer's responsibility to deduct all required taxes from your paycheck, which then were reported on the W-2 you received in January of the following year.

Now you will receive a Form 1099 MISC, which shows the gross earnings your carrier reported to the Internal Revenue Service. Your weekly settlement statements and receipts provide the explanations for the deductions that will help you arrive at your net pay. If you examine the weekly net pay of a typical company driver, you might conclude that owner-operators make more than twice the money.

But no taxes are deducted from owner-operators' settle-

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ment sheets, to say nothing of expenses. Furthermore, owner-operators do have to pay the same taxes as the company employee, plus the employer's share of the Social Security and Medicare taxes. (Both of these are self-employment taxes, as described in this chapter.) As an employee, only 50 percent of the self-employment taxes were deducted from your pay, but as an owner-operator, 100 percent of these taxes must be paid on the net profit of your business.

Both taxes are paid on Form 1040 at the end of the year – but estimated tax payments must be made each quarter, often in the range of 20 percent to 30 percent of the net income received over the quarter. Complying with this regulation not only avoids a penalty, it also eliminates any surprise of a huge tax bill as April 15 approaches.

TYPES OF TAXES

SELF-EMPLOYMENT TAXES. These equate to the Social Security and Medicare withholdings paid through a company for employees. For 2017, rates are unchanged from 2016 at 15.3 percent. This is made up of 12.4 percent Social Security tax and 2.9 percent Medicare tax.

FEDERAL AND STATE INCOME TAX. This is calculated on your tax return. As a company employee, this amount was estimated and withheld from your check. As an owner-operator, you are responsible for its estimation and payment.

ESTIMATED TAX PAYMENTS. Those who expect to owe at least $1,000 in tax after subtracting withholding and credits are required to make quarterly payments of self-employment taxes and federal and state income taxes. Though the IRS allows estimates based on the prior year's data, owner-operator financial services provider ATBS uses current data to compute estimated taxes due.

For payment vouchers and addresses for IRS estimated payments, as well as other federal tax information, visit www.irs.gov. Each state that imposes income taxes has a website to obtain their payment vouchers and addresses.

WHAT'S IT WORTH?

In this example, keeping records of business expenses saves $515 in income tax for someone in the 15 percent tax bracket, or more if a state income tax applies.

EXPENSES		TAX SAVINGS	
Personal vehicle use	$200	Self-employment tax	
Contract labor	$700	(15.3% of $1,700)	$260
Work clothing	$300	Income tax	
Credit card charges	$500	(15% of $1,700)	$255
TOTAL	**$1,700**	**TOTAL**	**$515**

DEDUCTIONS AND RECORDKEEPING

Owner-operators have to estimate the profit of their business so that estimated tax payments can be made. The profit also is used to calculate the taxes due at the end of the year when the Form 1040 is filed. The profit equation you should use is:

GROSS PAY
(as reported on 1099-MISC)
– ALLOWABLE
BUSINESS EXPENSES
= NET PROFIT

If you fail to show deductions or file a tax return, the IRS will determine the taxes that are due and not consider your deductions. This amount certainly will be much higher than you otherwise would have been required to pay.

As an owner-operator, you have many deductible expenses. (For a list of many of them, see Appendix 4.) The main criteria in determining deductibility are whether you have a record of the expense and whether it is an ordinary and necessary business expense. Other than honesty, the best protection from audits and penalties is good recordkeeping. Keep all records that support every deduction you claim on your tax return, beginning with your logbook for those per diem deductions. If you run leased to a carrier and use electronic logs, make sure you download your books every month or so for tax purposes; the carrier is not likely to keep them beyond the time required for compliance.

YOUR ROLE IN TAX PREP

If you want to avoid the most common mistakes seen in owner-operator tax returns, you need to get involved in checking the major numbers your tax preparer uses. Doing this can save you thousands of dollars in taxes. Or it could save you from thousands of dollars in penalties and interest if your preparer makes a stupid mistake in your favor.

An example: A husband-wife owner-operator team had a feeling something wasn't right on their return, though it had been prepared by a trucking specialist. The couple had shown a net operating loss on their Schedule C for seven years; an operating loss is often the result of high depreciation. Their most recent tax return, however, showed less than $1,500 in depreciation.

The preparer, following settlement sheets that separated mileage pay from fuel surcharge pay, was including only mileage revenues in the gross numbers. Fuel surcharge payments were listed under "reimbursements," which is not standard accounting practice. So gross revenue was less than $100,000 each year, even though the per diem showed more than 250 days on the road each year. This is an absolute giveaway that the gross revenue is incorrect.

This mistake resulted in under-reporting income by $20,000 to $40,000 per year for seven years. Tax was underpaid by $3,500 to $7,000 per year. With interest and penalties, the liability could be as high as $75,000.

Here's what you can do to avoid such situations:

SPOT-CHECK YOUR 1099 TOTAL. Most leased owner-operators make about $1.20 or more per mile with the fuel surcharge included. The number of dollars on your 1099 should be higher than the number of miles you ran during the year. If they're similar, it's close to $1 a mile, possibly indicating missing surcharge revenue.

VERIFY THE ACCURACY OF THE 1099 AMOUNT. Having established that the amount is reasonable, go further. A relatively small mistake, like an extra $5,000, wouldn't jump out, yet you would pay $1,000 in tax you didn't owe. Verify the amount by adding each settlement to determine your 1099 revenue.

CHECK AT LEAST THESE THREE EXPENSES.

- *Fuel.* You know the rough amount of your weekly fuel spending. Multiply that by 50 (assuming you took off a few weeks) to get a year's estimated total.
- *Maintenance.* See how your big expenses add up. If you know you had one $8,000 repair and total maintenance is just over $10,000, there's probably a mistake.
- *Per diem.* Look at your Schedule C for meals and entertainment. Take the total number of nights away from home, and multiply it by $63. Then multiply that number by 0.8. That should be your total deductible per diem.

If you find mistakes or red flags for one of these categories, continue checking entries, from largest dollar amount to smallest. If amounts in these are correct, odds are the tax return has been prepared correctly.

Save and label expense receipts, maintain an expense log, and sort it all at the end of every run. A receipt is the most obvious evidence of a deductible purchase, but you also can use canceled checks, bills, credit-card statements, invoices, an expense notebook – anything showing when, where and what you bought and how much you paid. Don't be too quick to label expenses "miscellaneous," either; the more specific you are, the better.

Don't forget to collect receipts for lumper fees or any expenses automatically charged to your credit card such as tolls, scales and credit-card fees. Many owner-operators maintain separate credit cards for business and personal use just to simplify keeping track of such expenses.

Don't overspend on supplies, equipment and services in your zeal to accumulate deductions. Only a portion of those expenses will be recouped through your tax filing. IRS Publication 552 goes into aspects of keeping records you might not have considered, such as the kinds of records to keep and how long to keep them. You can download the publication "Recordkeeping for Individuals" from www.irs.gov or have it mailed by calling (800) 829-3676.

PER DIEM EXPENSES

The per diem is the tax-deductible amount the IRS assumes you spend on meals, beverages and tips when you're away from home on an overnight business trip. For company drivers, the per diem is an itemized deduction, but for owner-operators, it is deducted on IRS Schedule C and directly reduces the self-employment taxes and income taxes owed on the return.

As of Oct. 1, 2015, owner-operators can deduct $63 a day, up from the previous mark of $59. If you run through a state with a higher per diem, you can use the higher rate for days spent in that state. An over-the-road trucker who's away from home much of the year will save money by using the per diem rather than gathering meal receipts, because few people consistently spend $63 a day on meals.

To claim the per diem on any trip, you must be away from home for the night, which you can prove through your logbook. A trucker who leaves the terminal before dawn, works an 18-hour day and then returns that night has not worked a single day for the per diem deduction by IRS standards because he didn't spend the night somewhere.

It's important to realize you can't deduct your total per diem from your tax bill dollar for dollar. The IRS allows you to take 80 percent of the per diem as a deduction on your taxes. At $63 per day, your net per diem deduction is $50.40.

DEPRECIATION

The standard depreciation for a new Class 8 truck, commonly called "straight-line" depreciation, is an evenly paced three-year deduction that's spread over four tax years: year one, 17 percent of the cost of the truck; years two and three, 33 percent each; year four, 17 percent.

Also common is a variation of the four-year formula known as accelerated depreciation. It takes 77 percent of the equipment's value in the first two years, 23 percent in the final two.

Section 179 of the tax code makes a tempting offer to owner-operators using either straight-line or accelerated depreciation: deducting in the first year as much as $500,000 on new equipment. This is no magic bullet, however, and it's not for everyone. It drastically speeds up the higher tax bills that come when depreciation runs out; it also could move the taxpayer into a higher tax bracket. Too many owner-operators use Section 179 to catch up after they've failed to make their estimated quarterly taxes; this is a shortsighted strategy. Owner-operators with a full tank of financial self-discipline can use Section 179 to zero out tax bills as long as possible, often two years, while diligently saving enough each year — typically 8 percent of gross revenue — for the inevitable day when the IRS comes calling. Consult your business services provider before trying this.

LEASE VS. PURCHASE: A TAX ANALYSIS

If you are leasing your truck, you can deduct the entire amount of the payment each month.

Example 1: Tom leased his truck Jan. 1. He is paying $2,000 per month. His total deduction is $24,000 ($2,000 x 12).

On the other hand, if you are purchasing your truck, you can deduct the depreciation on the total cost of the truck and the interest charges that are included in your payment. The truck is depreciated through accelerated depreciation over three years.

Example 2: Tom purchased his truck Jan. 1. The price is $60,000. He is paying $2,000 per month for four years to pay off the truck, 80 percent of which is interest in the first year. His depreciation deduction in year one is 17% of $60,000, or $10,200. His interest deduction is $19,200. His total deduction is $29,400.

As these examples illustrate, the owner-operator who is purchasing his truck has deductions in the first year that are $5,400 greater than the

TAX CALENDAR

ITEM	DUE DATE
Individual tax returns: original due date	April 15
Filing extension due	April 15 (extends to Oct. 15)
Estimated tax payments	
1st quarter	April 15
2nd quarter	June 15
3rd quarter	Sept. 15
4th quarter	Jan. 15
Federal Highway Use Tax	Aug. 31 ($550)

TAX MYTH	TAX REALITY
"In the year you start your business, you will owe no tax."	This is not true, especially if you are leasing your truck.
"You will get a big refund your first year."	You potentially can get a refund to the extent of taxes paid. Example: If your withholding as a company driver was $100 before you became an owner-operator, and you paid no additional taxes during the year, the most you normally can receive as a refund is $100.
"You should be incorporated."	Not necessarily. Incorporation only makes sense when the tax savings are greater than the additional costs. (See Chapter 13, "Choosing a Business Structure.")
"You don't have to make estimated tax payments."	Payments are required quarterly.
" 'Tax-deductible' or 'writeoff' means getting something free."	Most of the time it reduces your federal taxes only from between 15 percent and 30 percent of the value of the item purchased.
"You can deduct deadhead mileage and days off because of illness."	Because you deduct only your actual expenses while working and are taxed only on the profit you make while working, you're already getting a deduction for deadhead and time off.
"You can deduct the cost of your dog."	Generally the dog is deductible, as a security measure, as long as it is part of the trucking operation. Typically this means that the dog lives in the truck and is always with the truck.
"You can deduct out-of-route miles."	You deduct your actual expenses while working, which already includes out-of-route miles, as with deadhead, and you can't deduct anything twice.
"You can deduct the standard mileage rate for every mile you run."	You can deduct actual expenses or the standard mileage rate, but not both. For most owner-operators, the actual expense deduction usually makes sense.
"You can deduct tips for maintenance, tire changes, repairs, etc."	Only if you actually pay the tip. Falsely claiming tips is fraud.
"You can negotiate a deal with the IRS to pay back taxes at a few cents on the dollar."	Such deals, called Offers in Compromise, may be granted in extreme cases, and based on your ability to pay.

lease driver. But in the fourth year, the lease driver still will have his $24,000 per year, and the purchaser will have only $10,200 of depreciation left plus interest of $4,800 to deduct.

The purchaser gets higher deductions in the first and second year, but the lease driver's deductions are greater in the fourth year, with the third year close to equal. The net effect is a tax delay for the owner-operator purchasing the truck. The tax will be paid in later years, not eliminated by depreciation. Note also that if you trade every three years, erosion of depreciation may have set in by your fourth or fifth trade, so that you've lost much of the tax benefit enjoyed by people who buy less often.

Here's how it works. If you outright sell a fully depreciated truck for $30,000, that $30,000 is considered a taxable gain by the IRS. If instead you trade in that fully depreciated truck and get $30,000 credit on the cost of a new $100,000 truck, that $30,000 credit also is considered a gain, and it has to be accounted for somehow – generally by allowing you only $70,000 in depreciation over the life of the second truck.

After enough frequent trade-ins, each one failing to give you full depreciation value, you wind up buying a piece of equipment with a large price tag but without a lot of depreciation to show for it. If you want to change equipment that frequently, leasing might be a better long-term option than buying. Consult your business services provider for advice that fits your unique situation.

On the other hand, considered financially, it usually costs less to buy in the long term. Take, for example, the common five-year lease period measured against the likewise common five-year note on a new truck. With a purchase price of $118,000 for an aerodynamic truck with a 70-inch sleeper and a comparable lease of the same truck, tax savings are greater with the lease – almost $7,000 more over the five-year term. However, all other things being equal, it makes more sense financially to buy since the total adjusted cost of the vehicle with conventional loan financing is $10,000 less than the cost of the leased vehicle after a 20 percent buy-out at the end of the term. For more on this tough financial choice, see Chapter 14.

WATCH YOURSELF IN THESE AREAS

Four potential audit problems for owner-operators:

NO FIXED RESIDENCE. Make sure you have an established residence where you collect mail, even if it's a parent's house you rarely visit. Without a home to be away from, you don't qualify for the daily per diem writeoff for meals.

QUESTIONABLE HOME OFFICE. The IRS rules for home offices are so strict that they exclude most owner-operators. Deductible home offices must be used exclusively for the business and nothing else, not even at nights and on weekends. That goes for any equipment in the office, including the computer and the TV set. More of a hurdle to truckers is that the deductible home office must be the operation's primary place of business and must be used regularly. In most instances, the home-office deduction is legitimate only when a driver has a spouse or partner who stays at home and regularly does the load booking, dispatching, handling of multiple trucks or other business functions. You'll also need your business services provider to help you with the paperwork, as the required IRS Form 8829 gets confusing.

MINGLED ACCOUNTS. No law requires separate business and personal checking accounts or credit cards, but the law of common sense says otherwise. If you've mingled church and state, good luck proving to the taxman that a grocery receipt was for meals in the truck.

THE HEALTH-INSURANCE TAX PENALTY. More owner-operators are beginning to see the tax implications of the Affordable Care Act firsthand. If most recent *Overdrive* polling is correct, about a third of all owner-operators gave money to the government in 2016 for not carrying health insurance in 2015. Penalties have gotten stiffer. As this book went to press, Republicans were stalled on efforts to overhaul the ACA, eliminating the penalty. This area may not be one to worry about in the future.

MINIMIZING YOUR TAXES

Following are examples of tried and proven tax reduction tips:

GET HELP. The U.S. Internal Revenue Code is 3.4 million words long. In type this size, it would fill at least 60 issues of *Overdrive* magazine, with no room for photos or ads. Small wonder that income-tax advice sometimes can be complicated. That's why owner-operators need a business services provider who specializes in owner-operator businesses.

SAVE MONEY TAX-FREE. If you don't have a retirement account, start one. Up to a point, the money you put into an IRA, SEP or 401(k) is tax-exempt until you start drawing it out many years later. Put money into it regularly – ideally every week, or at least every month.

TRACK PERSONAL VEHICLE MILES. You cannot deduct mileage on your personal vehicle to get to and from work, but you can deduct it if you make a business-related trip to the bank, the post office, a business meeting, a truck show, a dealership, supply store or parts yard – even to a grocery store if your purchases were business-related. Keep a log in which you note the date, mileage and purpose of each business-related trip.

For tax year 2017, the IRS deduction for business miles is 53.5 cents. There are also smaller deductions for other personal-vehicle miles: 17 cents for medical-related trips or miles incurred in a household move, and 14 cents a mile for charitable trips such as Meals on Wheels deliveries.

GIVE TO GOOD CAUSES. Donations to churches, scholarship endowments, charities such as the Red Cross and the Salvation Army and nonprofits like Trucker Buddy all are tax-deductible. Gifts to business associates are tax-deductible, but limited: $25 in gifts per associate per year. If you're leased to a fleet, keep in mind that some carriers have policies against you giving gifts to dispatchers or safety officers; it looks like bribery and could void your contract.

HIRE THE KIDS. If you put an adolescent child on the payroll and pay her, say, $4,000 for the year, she pays no taxes on the income because she didn't make enough – but you pay no tax on it, either. Make sure the kids are doing age-appropriate work, and keep documentation of it, including filing a W-2 just as you would with an adult employee.

CLAIM TUITION TAX CREDITS. If you're paying tuition for yourself or your children to a qualified educational institution, take the tuition tax credit – a dollar-for-dollar savings off your tax bill. The tuition generally has to be to a school that offers a federal student loan program, which eliminates some driver or diesel training programs. Paying the full tuition by Dec. 31 will allow you to credit the entire amount on your taxes well before final exams.

USE THE CALENDAR. Keep a trucking-specific tax calendar at your home or in your truck. You can find one on the ATBS website containing important tax deadlines throughout the year and frequently missed tax deductions.

Before Dec. 31, buy whatever big-ticket business equipment you know you need: new tires, a laptop or an in-cab heater. Even if you buy it on credit, you get the tax benefit quickly while postponing the cost.

Deductions must be business-related. Here are a few examples:

• If you wash your truck at home, you can claim the cost of household water and detergent for washing the truck. Be sure to document the date and time.

• You can deduct a flyswatter for your truck, flashlight batteries, cleaning supplies and a bunk comforter.

• You can deduct an entertainment expense if you buy dinner for a driver you are trying to recruit for your company. But you can't deduct the cost of a DVD rental for entertainment.

• You can deduct coveralls, but not blue jeans. You can deduct steel-toed shoes, but not tennis shoes.

IRS AUDITS

The IRS usually has three years to challenge deductions or income stated on your return by requesting an audit, so you should keep your records for at least three years. An audit can be done either by mail or in person. The statute of limitations can be up to six years for returns where there is evidence of an understatement of income of 25 percent. If the return is found to be fraudulent with the intent to evade tax, or if no return is filed, an action can be brought at any time. The fact that the IRS is auditing your return does not mean you or your CPA made a mistake. The IRS randomly selects some returns to determine compliance with its tax rules.

If you receive a notice you are being audited, the first thing you should do is contact the person who prepared your return. However, only a Certified Public Accountant or Enrolled Agent can represent you in an audit. What's your chance of being audited? The Internal Revenue Service says 4 percent of tax returns filed by the self-employed with at least $100,000 in revenue get special attention.

Claiming substantial expenses not common to a single-truck owner-operator — such as utilities, advertising or inventory — might draw an audit. The reality of the owner-operator world is that a single engine rebuild can spike expenses for the year; income also can be volatile, especially for independents. If circumstances such as those put you among the one in 25 who meet face to face with the IRS, make sure you've got the documentation. Most IRS auditing of the self-employed boils down to verifying expenses.

The ATBS Tax Resolution team specializes in helping owner-operators who get behind on their taxes and can assist with wage garnishments, IRS tax liens, IRS representation, audits, offers in compromise and more. Consultations with the ATBS Tax Resolution team are free and confidential. Call (888) 640-4829 for answers to your questions.

Whatever expert help you receive, remember you ultimately are responsible for your return. Some tax preparers are aggressive in claiming deductions; be aware of what's being submitted on your behalf, and make sure you're comfortable with it.