

# Per Diem Allowance Overview

## Trucking Owners Business Roundtable

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# FICA Rate Reverts Back to 6.2%

XYZ COMPANY					
Impact on Driver Pay - FICA Rate Increase					
				Weekly Cost to Driver	Annual Cost to Driver
Description		FICA - 4.2%	FICA - 6.2%		
Driver Pay Per Mile:	\$	0.40	\$ 0.40		
Driver miles per week:		2,150	2,150		
Gross Pay	\$	860.00	\$ 860.00		
FICA		36.12	53.32		
MEDI		12.47	12.47		
FWT 15% Rate Assumed		129.00	129.00		
SWT 3% Rate Assumed		25.80	25.80		
LWT 0% Rate Assumed		-	-		
Net Pay	\$	656.61	\$ 639.41	\$ (17.20)	\$ (894.40)

# Per Diem Opportunities

- A transportation company can provide employee drivers who are away from home a per diem allowance for meals and incidental expenses of up to \$59 daily without substantiation from the driver of its use.
- Paying employee drivers per diems can be an effective way to increase driver pay while protecting company profits.



# Per Diem Opportunities

- The transportation meals and incidental expenses, or M&IE, per diem allowance is 80% tax deductible. Other industries are only allowed a 50% tax deduction.
- In addition, for every per diem dollar paid, the company no longer pays its portion of the FICA tax.
- In some cases, implementing a per diem plan can reduce workers compensation expense.

# Per Diem Advantages – Drivers

XYZ COMPANY					
HOW PAYING PART OF DRIVER MILEAGE PAY AS A PER DIEM PUTS CASH IN THE DRIVERS POCKET					
Driver Pay					
Description	No Per Diem Paid	\$0.100 Per Mile Per Diem	Cash Benefit(Cost) to Driver	Net Pay Increase Per Mile	
Driver Pay Per Mile:	\$ 0.38	\$ 0.2600			
Driver Per Diem Per Mile	\$ -	\$ 0.100			
Driver miles per week:	2,150	2,150			
Gross Pay	\$ 817.00	\$ 559.00			
Per Diem (Cannot exceed \$59 per day for days out)		\$ 215.00			
FICA	50.65	34.66			
MEDI	11.85	8.11			
FWT 15% Rate Assumed	122.55	83.85			
SWT 3% Rate Assumed	24.51	16.77			
LWT 0% Rate Assumed	-	-			
Net Pay	\$ 607.44	\$ 630.62	\$ 23.18	0.01078	
			Cash Benefit for Driver for 50 weeks.	\$ 1,159	
			Total Additional Annual Cash to Drivers	\$ 231,770	

# Per Diem Advantages – Company

XYZ COMPANY					
HOW PAYING PART OF DRIVER MILEAGE PAY AS A PER DIEM PUTS CASH IN THE COMPANYS POCKET					
Company Cost					
Description		No Per Diem Paid	\$0.100 Per Mile Per Diem	Cash Benefit(Cost)	Savings Per Mile
Gross Pay		\$ 817.00	\$ 559.00		
FICA		50.65	34.66		
MEDI		11.85	8.11		
Per Diem		-	215.00		
Company Cost		<u>\$ 879.50</u>	<u>\$ 816.76</u>	\$ 62.74	
Reduction (Increase) in worker comp. Insurance--Rate:	0.00%			\$ -	
Company (increase) in tax due to lost deduction on 20% of per diem at 43% tax rate				\$ (18.49)	
Company (increase) in tax due to reduction in driver wages, FICA, MEDI and WC deduction at 43% tax rate				\$ (26.98)	
<b>Net Cash Benefit (Cost)</b>				<u>\$ 17.27</u>	<u>\$ 0.008</u>
	Cash Benefit per truck for 50 weeks			\$ 864	
	Number of Trucks			200	
	Annual Cash Benefit (Cost) to Company			<u>\$ 172,701</u>	

# Per Diem Compliance Testing

*Rev. Rul. 2006-56 provides examples of situations where the IRS would deem a transportation company's per diem program to be a "non-accountable plan," which is to be avoided.*

*The IRS might determine that a transportation company has a non-accountable plan if:*

- There are no processes or mechanisms to establish if the per diem is in excess of the daily allowance.
- Drivers are allowed to keep the excess and the amount is not reported on form W-2.
- Per diem allowances paid are routinely in excess of the daily rate.
- Evidence points to a pattern of abuse.

# Per Diem Compliance Testing

- Test 100% of all per diems paid and ensure excess amounts paid are handled correctly.
  - *Without software and/or personnel, companies will not find this a cost effective option.*
- Set the cents-per-mile per diem low enough that none of the drivers will ever exceed the \$59 rate.
  - *The low rate may not be competitive enough to entice new drivers or retain existing ones.*
- Conduct random samples but also select high-mileage drivers for compliance.
  - *Preferred alternative if company lacks personnel and/or software to perform 100% testing.*
  - *Considered acceptable by the IRS.*



# Questions?

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