Where it ALL began...

The Truth About Trucking

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Truck Driver Pay: Per Diem or CPM?

As many trucking companies are still in the process of recovering from the recent high fuel prices and contemplating the uncertainties of future economic times, the pay per diem plan is rearing its head more and more. Trucking companies are beginning to "push" drivers toward this other option for pay, in regards to the more standard role of cents per mile pay. Many drivers are still confused about this per diem situation, and rightfully so. Anything related to governmental taxes can be difficult to understand. So which plan is the best plan? Pay per diem or CPM?

The per diem plan is supposedly calculated to provide the driver with the maximum savings possible under the rules of the IRS. The trucking company will begin with the drivers' base mileage rate and then they will apply the per diem tax reduction amount by a certain CPM rate.

For illustration purposes, let's use the reduction amount of 11.5 CPM**.** The drivers' taxes will then be calculated on that reduced amount. So if the trucking company is paying .10 cents per mile back as per diem, this qualifies as a non-taxable expense reimbursement, rather than showing as taxable income. The company will then take the 1.5 cent difference and use this to offset any administrative and additional taxes that the company may incur.

The per diem pay plan reclassifies a portion of your paycheck as "expense reimbursement" rather than actual income. Therefore, your taxable income is lower. In return, this will affect many other benefits that are calculated off of taxable income such as worker's compensation, disability claims, unemployment benefits and the most important one…social security benefits.

Also, an important aspect to remember, is that by showing a lower taxable income, this could very well reduce your ability to secure loans at a decent rate, and to be able to obtain credit. This is because, of course, that banks and lending institutions look at your total income when basing their decision on extending loans and credit.

Another important factor that could be disrupted by using the per diem, is any profit sharing plan your company may offer. Profit sharing plans are mostly based on taxable income, and any income tax savings you may receive from utilizing the per diem plan, would reduce your profit sharing contributions.

Per Diem pay used to mean the amount the company would give the driver, beyond the regular earned wages, to pay for meals while out on the road performing the job. However, it is now a way for the trucking companies to reduce their taxes along with reducing the drivers' taxes, yet hurting the driver in the ways stated above. The per diem plan causes the drivers' yearly income to look smaller, which again, can cause problems when applying for loans and credit.

Also keep in mind, that the per diem portion the driver receives is tax free when the trucking company pays it. At the end of the year, if the driver has been over paid what the IRS allows, then the driver…not the company…will have to pay the difference in taxes. We will all have to pay taxes anyway. Why give up hundreds of dollars it will cost us over our lifetime of earnings, in order to "bring home" $35 to $75 more per week? Drivers are basically trading their future retirement earnings, while the trucking company is increasing their daily earnings, by reducing their tax liabilities.

The trucking companies are really the ones benefiting from the pay per diem plan. The company will pay less in unemployment tax, medicare, driver pay and social security. The per diem pay plan can drastically reduce the drivers' future social security benefits as well as other retirement plans such as the 401K.

Always check with your accountant who specializes in transportation if you are still uncertain about the per diem pay plan. Trucking companies are in business to make money. Any business is in business to make money, that is understandable. Just remember, the plan the trucking company is pushing for the driver to utilize, is often the plan the driver wants to stay away from the most. As for me, I would always go with the CPM pay plan.

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