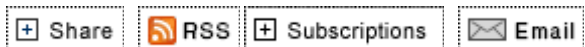


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Some Taxing Thoughts...



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I stopped by the Post Office yesterday to pick up my mail. It was a busy place, not an empty parking space to be found. Most times there are only 4 or 5 cars in the lot. My first thought was that they were giving away postage. Then I remembered that today is tax deadline day and that everyone was rushing to get their taxes into the mail. The lines were long and people were grumbling, unhappy about the wait and unhappy about paying

taxes.

I remember my accountant telling me as we reviewed my tax return that my "effective" tax rate was 21%. For every \$100 that I earned the federal government got to take \$21. But that is not the whole bite, which is only the income tax bite. There are all sorts of other taxes that we pay that are bites from our income AND additions to our purchase costs.

Let's look at the income side of the equation, assuming that we are looking at a self-employed person in Pennsylvania.

| | |
|---------------------------------|--------|
| Federal Income - Effective Rate | 21.0% |
| Social Security - Self Employed | 12.4% |
| Medicare - Self Employed | 2.9% |
| State Income Tax | 3.07% |
| Local City Tax - | .5% |
| Local School Tax - | .5% |
| Total Income Taxes Percentage - | 40.37% |

So for every \$100 our self employed person is paying \$40.37 in income taxes.

Is that all of the taxes? Not by a long shot. Let's assume that our self-employed person owns and operates a truck. He bought a Mack Granite CTP713 dump truck last fall for \$106,500. The sales tax for that truck is 6%, so there was \$6,390 tax on the purchase. The 6% sales tax hits everything that our driver buys to support his business, except fuel. Tires, oils, maintenance service, everything carries a 6% sales tax.

Now fuel gets extra special handling. In Pennsylvania there is a 12 cent per gallon Liquid Fuels Tax, which is charged at the pump along with the road use taxes 27.2 cents and the federal fuel tax of 24.4 cents per gallon, a total fuel tax of 63.6 cents per gallon. Assuming that the Mack gets about 5 miles to the gallon, the fuel tax cost per mile is about 12.7 cents a mile. Our driver is a busy guy hauling stone in the local market, and he gets about 250 miles per day running stone to different projects. In his daily work he is paying \$31.75 in fuel and road use taxes per day. On an annual base the fuel and road use taxes are \$8,255. \$4 per gallon diesel has a tax of 15.9%. At \$4 per gallon, it is costing our driver 80 cents a mile in fuel, and 16% is taxes. Lets pull the fuel taxes out and the "pure" fuel cost is \$3.37 per gallon, about 67 cents per mile.

Our driver is going to run that truck about 7 years before he trades it in for a "new" used truck. At 250 miles a day he is only putting 65,000 miles a year onto the truck, so about 455,000 in the 7 years he plans to hold the truck. Lets assume that he is "paying" himself 25 cents per mile for the use of the truck that he invested in per mile, so that he has the cash to replace the truck.

Let's assume that the driver needs to make \$60,000 gross per year, and is willing to work a few hours of overtime each day to make ends meet, so the hourly pay the driver needs is \$23.00. Based on the 250 miles per day our driver needs to make 92 cents per total mile. What is the income tax per mile? Assuming the 40.37% from our table above the driver gets paid about 55 cents per mile and about 37 cents per mile is income taxes.

How about Maintenance and Insurance? Let's just assume that it costs a nickle a mile to maintain the truck and 3 cents a mile for the insurance, so a total of 8 cents.

Hold the phone, look at the costs per mile:

| | | |
|-------------------|--------|-----|
| Truck | \$0.25 | 12% |
| Wages (w/o taxes) | \$0.55 | 27% |

| | | |
|-------------------------|--------|-----|
| Fuel (w/o tax) | \$0.67 | 33% |
| Road & Fuel Tax | \$0.13 | 6% |
| Income Tax | \$0.37 | 18% |
| Maintenance & Insurance | \$0.08 | 4% |
| TOTAL | \$2.05 | |

The top 3 costs for our driver is Fuel, Wages for himself, and taxes. Taxes (Income and Road Use / Fuel) are almost 25% of the total cost per mile.

Our driver hauls stone from the quarry to different job sites. His average haul is about 20 miles, and he has the 20 mile trip back to to load up for the next load. The operating cost per mile is \$2.05, but the loaded cost per mile is really got to be \$4.10 to account for the empty miles that the truck has to carry.

I am building a small patio, and needed a load of stone for the base. The material was only \$9.41 per ton, and the truck brought 10 tons, a total stone cost of \$94. The hauling for the load, from the quarry to my home, a distance of 9 miles was \$110, about \$12.22 per mile. Based on the math that I did above, I am sure that the driver made out well on my load. But I have no idea how he did on other loads, or how well he is doing overall.

When the cost to transport a product is higher than the value of the product itself there is an imbalance going on. But think of the alternatives: I also know that if I had bought the same amount of stone at the local home improvement center, in the little 40 pound bags, and hauled them home in 25 trips in the back of my pickup truck the cost would have been over \$1,900. In the grand scheme of things having the guy in the 10 ton Mack deliver at \$12.22 per mile was a good deal.

So in the end there was a tax on the stone for my patio. There was the 6% sales tax on the material, about \$5.65 and about \$9 in taxes in the freight, a total of \$14.65.

Well, enough thinking about taxes. It is time to go rack and level that stone.

Posted by [David Schneider](#) on April 15, 2008 | [Comments \(0\)](#)

