MAKE IFTA WORK FOR YOUR OPERATION

How to avoid and navigate through audits



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Introduction

Interstate motor carriers have to deal with a wide array of government regulations that demand more and more of their businesses. As this industry is becoming increasingly regulated, it is highly essential for carriers to get smart about their administration and recordkeeping systems.

Read this white paper to:

- Better understand the International Fuel Tax Agreement (IFTA)
- Identify the challenges and impact IFTA presents to carriers
- Be aware of common fines and penalties for IFTA-related offenses
- Learn more about audit selection criteria, and get tips on how to avoid being selected for an IFTA audit
- Know what to expect when you're selected for an audit
- Find the right solution for automating your IFTA compliance

What is IFTA?

The International Fuel Tax Agreement (IFTA) is an agreement between the lower 48 U.S. states and 10 Canadian provinces, and it was designed to simplify the reporting of fuel use by motor carriers that operate in more than one jurisdiction. Through IFTA, interstate motor carriers only have to file their fuel tax reports with the state they're licensed under.

Although this agreement was founded on the principle of simplifying administrative overhead requirements, many in the trucking industry still have a difficult time navigating through it due to the heavy recordkeeping required.

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Difficulties associated with IFTA

Administration of the International Fuel Tax Agreement is a major burden on interstate motor carriers. IFTA requires carriers to maintain a recordkeeping system that accurately tracks Individual Vehicle Mileage Reports (IVMRs) and fuel purchases. Carriers must then consolidate and reconcile this information into an IFTA filing every quarter.

These requirements demand an immense amount of resources. Fleet managers that manually administer this process spend countless hours gathering and interpreting handwritten reports and reviewing receipts. The cost to larger fleets is even more extreme as many larger fleets dedicate personnel for the sole purpose of processing IFTA.

In addition, data collection requirements cause frustration for truck drivers. To produce accurate IVMRs, drivers are asked to stop at state line crossings and complete handwritten trip reports – an especially time-consuming task for drivers that can also negatively impact your company's bottom line.



Fines and penalties

In addition to administrative requirements, a variety of fines and penalties can be imposed for those that are unable to comply with IFTA regulations. Here are two common finable offenses:

- **Late payments**: There is a penalty charge and applied interest if you do not file a quarterly tax return. File your return by the due date or pay the tax you owe. The penalty is $50 or ten percent of the total net tax due with your return – whichever is more. Interest on unpaid tax is charged at the rate of one percent per full or partial month. If the auditor determines you did not file returns because of intent to commit fraud or intent to evade the fuel use tax, you may be subject to criminal prosecution and an additional fine of up to $5,000.
- **Inability to produce IFTA credentials**: If a driver operates a qualified motor vehicle without carrying a copy of a current and valid IFTA license, the owner may be subject to a citation, fine, or penalty, or to the possible seizure and sale of their vehicle.

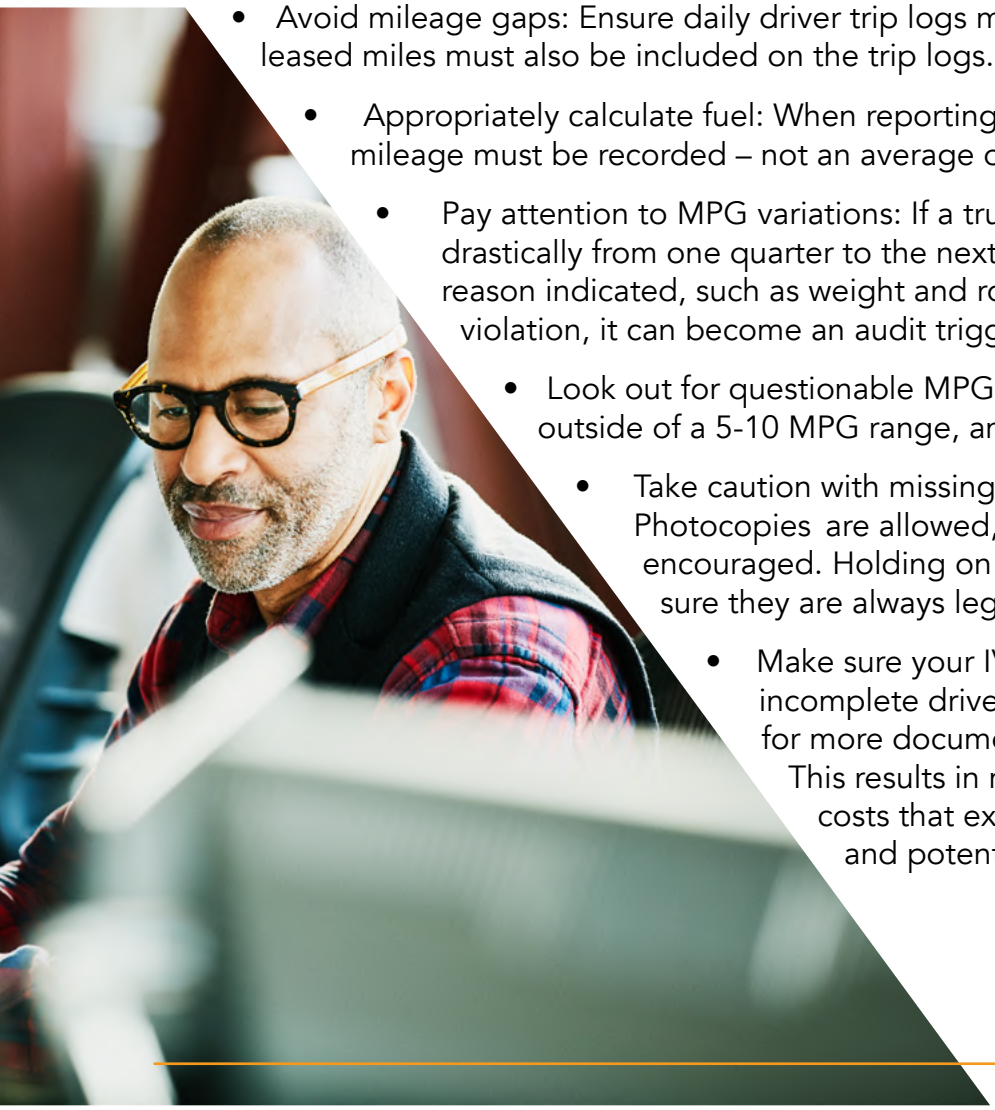
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When to worry about being audited

Each IFTA jurisdiction is required to audit 3% of its IFTA accounts per year. This small percentage may not seem concerning, but since not all IFTA audits are determined randomly, you have a much higher chance of being audited if you are utilizing a manual recordkeeping system to ensure compliance due to the propensity for human error.

Here is a list of some ways you can avoid an IFTA audit:

- File on time and minimize amended filings: There is safety in numbers. Filing late or amending your filings can garner unwanted attention.
- Document vehicle odometer issues: An issue with your odometer or problem with your GPS tracking should not go unaddressed as it can dramatically skew your reporting. Be sure to note if or when incidents like this occur.
- Don't skip jurisdictions: Driver trip logs must show continuity from the starting location to the destination location, noting every district in between. Routes that imply non-contiguous travel across states make a glaring error to auditors.
- Avoid mileage gaps: Ensure daily driver trip logs match from day to day. Personal or leased miles must also be included on the trip logs.
- Appropriately calculate fuel: When reporting fuel, precise fuel use and mileage must be recorded – not an average of MPG and miles traveled.
- Pay attention to MPG variations: If a truck's average MPG varies drastically from one quarter to the next, there needs to be a legitimate reason indicated, such as weight and road conditions. While not a direct violation, it can become an audit trigger.
- Look out for questionable MPGs: If your reported mileage falls outside of a 5-10 MPG range, an audit could be triggered.
- Take caution with missing or illegible fuel receipts: Photocopies are allowed, but they are not always encouraged. Holding on to your receipts – and making sure they are always legible – is best.
- Make sure your IVMR data is sufficient: An incomplete driver trip report can trigger a request for more documentation to substantiate claims. This results in more paperwork and unnecessary costs that expose carriers to more scrutiny and potential liabilities.



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What to expect when you're getting audited

There are still times when – even if you follow the previous tips – you may still be randomly selected for an IFTA audit. Here's an overview of a typical audit along with tips you can use to ensure you're ready.

1 Initial audit notification

When you are selected for an IFTA audit, you will receive a notification letter. This will be followed by contact from your auditor within 30 days of receiving the letter.

2 Request for preliminary info/questionnaire

Every auditor will require some initial info from you to provide some context around the pending audit. Be sure to complete and return the questionnaire and be as accurate as possible.

3 Request to prepare subsequent info in advance of audit

Gather helpful documentation, like fuel receipts, fuel card statements, and mileage summaries, to best prepare for your audit.

TIPS FOR A SMOOTH AUDIT

- Designate a single point of contact for the auditor
- Create a workplace for the auditor: Seclude the auditor away from other staff
- Set up special access for the auditor to run reports: This is much more efficient than printing reports

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Before the audit

An auditor will specify a date and time for your audit. Once the audit is scheduled, be sure to request a list of required documents. You can also request for the auditor to select a period of time for your audit. The amount of time an auditor can audit varies based on state law, but is typically limited to a period of three years.

An auditor may request access to all vehicles. You can request that the auditor examine a sampling of vehicles instead of the entire fleet. You can also request a time extension should you require one.

Starting the audit

The initial conversation between you and your auditor can take place over the phone or in person. Keep in mind that you are not required to sign anything until the end of the audit.

During the audit, the auditor will examine vehicle inventory and activity. This will include identification of the number of vehicles in your fleet, how many miles were traveled, and the destinations traveled. They will be looking for:

- Permits or vehicles that don't match up
- Fuel reported without miles
- Miles reported without fuel
- Missing receipts
- Inaccurate placement of miles
- Clerical input errors

TIP

You may be presented with a waiver. Once signed, you lose your right to challenge the result of the auditor's assessment. Be certain to read before you sign.

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Audit results

At the end of your audit, you will be shown any discrepancies between fuel purchase and distance traveled, distance reported in the wrong jurisdiction, and tax and interest owed. At that time, you may offer reports or other data to reconcile these discrepancies. You will have 30 days to respond to the auditor's assessment.

Responses may include the following:

NO ACTION

Only if no discrepancies are found during the course of the audit

MAKE PAYMENT

If you do not wish to challenge the auditor's findings

CHALLENGE

If you did not sign the waiver, you may:

- Request a more detailed audit
- Produce documentation to disprove the auditor's assessment
- Request a new auditor

*Only valid if you did not sign a form waiving your right to challenge the auditor's assessment

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Get smart about IFTA reporting with Omnitracs Tax Manager

IFTA may be difficult to navigate through at first, but it doesn't have to be. By leveraging the right technology, you can automate your data collection, digitize receipts, and greatly minimize your audit risk. This takes the hassle out of administrating a complex recordkeeping system so you can focus on growing your business.

With Omnitracs Tax Manager, you can eliminate errors caused by manual processes or other tax-prep solutions by rapidly retrieving tax information via an automated system. Utilize key features like predictive analytics and error acknowledgment to stay secure with all your tax knowledge.

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