Horseshoes & Hand Grenades

big money *With auditors combining IFTA checks with IRP and MJVT, being close on mileage and fuel reports isn't good enough.* By Steve Mulligan

Remember the days when we filed a multitude of fuel tax returns? Each state and province looking for its due (and making audit visits, too)?

Not only was it a ton of work, but the audit risks were immeasurable due to conflicting audit guidelines and a general lack of cooperation among jurisdictions, all looking to extract the extra dollar from your reassessment.

Along came the International Fuel Tax Agreement, or IFTA. Finally, a single tax filing, with your local jurisdiction handling the audits, and a consistent, manageable risk in terms of audit exposure. If it weren't for the few states that insist on separate mileage tax filings, compliance would be simple.

Lately, though, we've seen a dangerous indifference toward fuel tax reporting. Call it a lull, a gentle settling of our fears, a reduced awareness, and quasi-readiness to defend the IFTA tax return as filed.

It's dangerous because auditors are starting to combine IFTA, IRP, and MJVT audits into one visit. As I was writing this column last month, auditors in Ontario were launching into their first combined IRP/IFTA audit.

For years, field auditors have worked as best they can to perform the minimum number of audits required by IFTA for a given jurisdiction. We know from attending the annual IRP/IFTA Audit Workshop that all jurisdictions have been stretched thin. Many carriers haven't seen an auditor in some time, if at all. So audit experiences just haven't been on the radar screen as carriers focus on more common day-to-day challenges.

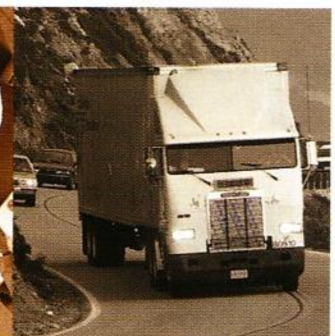
There's also the belief among carriers that an error factor of up to 5 per cent is acceptable, as IFTA simply redistributes the misapplied miles or fuel, and with a small interest factor, "it all works out in the wash."

Not true. Redistribution with penalties and interest can be severe depending on which jurisdictions are swapping mileage and fuel. Our practice is to account for all kilometres and litres to get the correct KPL for tax calculations. Missing "miles and fuel," or the use of dispatch or porous "satellite" miles, are an invitation to a big assessment.

Now take that apparently "acceptable" 5-per-cent error factor and apply it to not only the IFTA redistribution, but also to sales tax and licensing costs. With a tri-part audit, "the wash" is a tidal wave of new taxes, penalties, and interest.

Remember, too, that states apply mileage taxes unilaterally. If you haven't been through a mileage tax audit, be forewarned: it's a process designed to favour the jurisdiction, not the taxpayer. The smallest error factor will be fully exploited and you will pay, unless driving around the state is an option.

One of our clients is Contrans. Based in Woodstock, Ont., it's one of the biggest fleets in Canada with more than 1,100 tractors and 2,000 trailers covering all of North America. They're a great example of why accuracy is so important.



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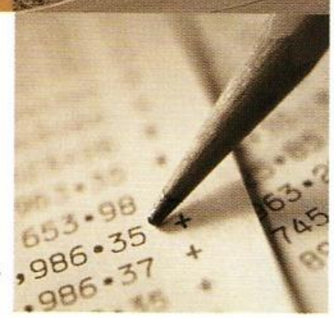

Given the number of trucks and miles Contrans deals with, the implications of an audit are considerable. The company targets zero errors and zero assessments at time of audit. Not only is Contrans reducing its audit risk, it uses information collected for IFTA as foundation data for many of the reports and metrics the company uses to monitor its operating performance. Every gap in trip reporting is filled, every odometer is corroborated, and every litre accounted for, because the information is first used internally for management's consumption, and then secondly for auditors. For Contrans, when an IFTA audit happens, it's anticlimactic.

Accurate reporting will be even more important in a combined audit.

You'll spend less time preparing for it (and enduring it) if you keep your data accurate and organized as a matter of practice. It's worth the cost and effort when you consider the risk of a big assessment—not to mention the benefit of having solid information to help you make better decisions about your business. ▲

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