Keys to successful IRP, IFTA, MJVT reporting

Tax Talk

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The concept behind the International Registration Plan (IRP) is to make it easier to register and pay licensing fees to each jurisdiction you travel to. And I think everyone would agree that it does. Today, 10 provinces and the 48 contiguous states participate in IRP.

For Ontario, joining IRP meant figuring out a way to apply the province's proportional 8% retail sales tax (RST) on multi-jurisdictional vehicles used in the province. RST was assessed at the time of purchase on a pro-rated basis among Canadian provinces. You probably remember applying for sales tax refunds on your vehicle purchases and yearly on your lease payments.

Ontario's solution was an annual pro-rated sales tax known as "multi-jurisdictional vehicle tax" (MJVT). Collected at the time of your IRP licence registration, the MJVT applies to purchased and leased vehicles and is calculated annually on proportional distances travelled in each jurisdiction in the previous calculation year (July 1 to June 30).

Since Oct. 1, 2001, owners of multi-jurisdictional vehicles based in Ontario have paid the RST in annual installments over the life of the vehicle rather than up front, in a larger lump sum. It's still pro-rated based on the number of kilometres your fleet travels in each jurisdiction that charges sales tax.

A vehicle that switches from multi-jurisdictional travel to travel in Ontario only (ie., exits the IRP system) will be liable for 8% RST on the depreciated value of the vehicle – an exit tax. It's something that often gets overlooked by owner/operators when changing from an IRP fleet to an all-Ontario fleet. The Ontario Ministry of Revenue will bill you for the full 8% RST on the depreciated value of the vehicle.

Now that Ontario plans to make RST fully refundable, through a harmonized sales tax with GST, like Quebec, New Brunswick, Nova Scotia, and Newfoundland, it will be interesting to see what happens to the MJVT. In its own literature, Ontario describes the MJVT not as a tax but a "new way" to collect RST.

So when RST becomes fully refundable like GST, what happens to the MJVT?

I'm sure the OTA will be lobbying the Ontario Ministry of Revenue hard on this issue.

If you get a chance to shake hands with an MPP in the coming months, take time to mention that trucking wants the MJVT to be refundable.

IFTA: More audit exposure

Another program that's made the administration side of trucking easier is the International Fuel Tax Agreement (IFTA). It provides a single tax filing, with your local jurisdiction handling the audits, and a consistent, manageable risk in terms of audit exposure.

Lately, though, we're hearing about a lot of complacency and sloppiness when it comes to compliance.

Why? We know from attending the annual IRP/IFTA Audit Workshop that jurisdictions have been stretched thin. Many carriers haven't seen an auditor in some time, if ever. So audit experiences just aren't on the radar as carriers focus on more common day-to-day challenges.

Other carriers think IFTA allows a margin of error up to 5% and that penalties are minor.

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 "practical miles" or unanalyzed "satellite" miles, are an invitation to a big assessment.

If you think you'll never face an IFTA audit, think again. Auditors are being dispatched on multiple assignments: tri-part audits, encompassing IFTA, IRP, and MJVT all in one shot.

Take that supposed 5% error factor and apply it to not only the IFTA redistribution, but also to sales tax and licensing costs, and you're awash in a 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.

Accurate reporting is even more important with the advent of tri-part audits.

It's worth the cost and effort to be accurate 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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