

Letter of Findings: 42-20190806
International Fuel Tax Agreement
For The Tax Year 2016

NOTICE: IC § 6-8.1-3-3.5 and IC § 4-22-7-7 require the publication of this document in the Indiana Register. This document provides the general public with information about the Department's official position concerning a specific set of facts and issues. This document is effective as of its date of publication and remains in effect until the date it is superseded or deleted by the publication of another document in the Indiana Register. The "Holding" section of this document is provided for the convenience of the reader and is not part of the analysis contained in this Letter of Findings.

HOLDING

Business was not able to meet the burden of proving the Department's proposed IFTA assessment wrong. Therefore, the assessment remain as issued.

ISSUES

I. IFTA–Assessment.

Authority: IC § 6-8.1-5-4; IC § 6-6-4.1-14; IC § 6-8.1-5-1; *Indiana Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579 (Ind. 2014); *Indiana Dept. of State Revenue v. Rent-A-Center East, Inc.*, 963 N.E.2d 463 (Ind. 2012); *Lafayette Square Amoco, Inc. v. Indiana Dept. of State Revenue*, 897 N.E.2d 289 (Ind. Tax Ct. 2007; IFTA Articles of Agreement § R700; IFTA Articles of Agreement § R1210; IFTA Articles of Agreement § R1230; IFTA Procedures Manual § P510; IFTA Procedures Manual § P530; IFTA Procedures Manual § P540; IFTA Procedures Manual § P550; IFTA Procedures Manual § P560.

Taxpayer protests the Department's proposed assessment.

II. Tax Administration–Penalty.

Authority: IC § 6-8.1-10-2.1; [45 IAC 15-11-2](#); IFTA Articles of Agreement § R1220; IFTA Articles of Agreement § R1260.

Taxpayer protests the Department's imposition of the negligence penalty.

STATEMENT OF FACTS

Taxpayer is an Indiana business engaged in trucking. As the result of an audit, the Indiana Department of Revenue ("Department") determined that Taxpayer had underreported the amount owed under the International Fuel Tax Agreement ("IFTA") for the year 2016. The Department therefore issued proposed assessment for IFTA tax, penalty, and interest. Taxpayer protested the imposition of additional IFTA tax and penalty. An administrative hearing was held and this Letter of Findings results. Further facts will be supplied as required.

I. IFTA–Assessment.

DISCUSSION

Taxpayer protests the imposition of additional IFTA taxes for the tax year 2016. The Department based its determination that additional IFTA taxes were due on the fact that Taxpayer did not have any original documentation available for review and verification of the IFTA quarterly returns already submitted by Taxpayer for that year. The Department therefore used revised mileage figures as provided under IFTA. Those calculations resulted in the Department determining that Taxpayer used and purchased more gallons of fuel than reported and that additional IFTA taxes were due. Taxpayer protests that it based its returns on original documentation as required by IFTA, and Taxpayer claimed it was not aware of the odometer requirements for IFTA.

As a threshold issue, it is the Taxpayers' responsibility to establish that the existing tax assessment is incorrect. As stated in IC § 6-8.1-5-1(c), "The notice of proposed assessment is prima facie evidence that the [D]epartment's claim for the unpaid tax is valid. The burden of proving that the proposed assessment is wrong

rests with the person against whom the proposed assessment is made." *Indiana Dept. of State Revenue v. Rent-A-Center East, Inc.*, 963 N.E.2d 463, 466 (Ind. 2012); *Lafayette Square Amoco, Inc. v. Indiana Dept. of State Revenue*, 867 N.E.2d 289, 292 (Ind. Tax Ct. 2007). Consequently, a taxpayer is required to provide documentation explaining and supporting his or her challenge that the Department's position is wrong. Further, "[W]hen [courts] examine a statute that an agency is 'charged with enforcing . . . [courts] defer to the agency's reasonable interpretation of [the] statute even over an equally reasonable interpretation by another party.'" *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579, 583 (Ind. 2014). Thus, all interpretations of Indiana tax law contained within this decision, as well as the preceding audit, shall be entitled to deference.

The Department first refers to IC § 6-6-4.1-14, which states:

- (a) The commissioner or, with the commissioner's approval, the reciprocity commission created by [IC 9-28-4](#) may enter into and become a member of the International Fuel Tax Agreement or other reciprocal agreements with the appropriate official or officials from any other state or jurisdiction under which all or any part of the requirements of the Indiana Administrative Code are waived with respect to motor carriers that use in Indiana motor fuel upon which tax has been paid to the other state or jurisdiction. An agreement may be made under this subsection only with a state or jurisdiction that grants equivalent privileges with respect to motor fuel consumed in the other state or jurisdiction and on which a tax has been paid to this state.
- (b) The commissioner or, with the commissioner's approval, the reciprocity commission created by [IC 9-28-4](#) may enter into the International Registration Plan, the International Fuel Tax Agreement, or other reciprocal agreements with the appropriate official or officials of any other state or jurisdiction to exempt commercial motor vehicles licensed in the other state or jurisdiction from any of the requirements that would otherwise be imposed by this chapter, including the requirements for trip permits, temporary authorizations, repair and maintenance permits, and annual permits and the payment of fees for permits and authorizations. An agreement may be made under this subsection only with a state or jurisdiction that grants equivalent exemptions to motor vehicles licensed in Indiana.

Next, IC § 6-8.1-5-4 states:

- (a) Every person subject to a listed tax must keep books and records so that the department can determine the amount, if any, of the person's liability for that tax by reviewing those books and records. The records referred to in this subsection include all source documents necessary to determine the tax, including invoices, register tapes, receipts, and canceled checks.
- (b) A person must retain the books and records described in subsection (a), and any state or federal tax return that the person has filed:
 - (1) for an unlimited period, if the person fails to file a return or receives notice from the department that the person has filed a suspected fraudulent return, or an unsigned or substantially blank return; or
 - (2) in all other cases, for a period of at least three (3) years after the date the final payment of the particular tax liability was due, unless after an audit, the department consents to earlier destruction.In addition, if the limitation on assessments provided in section 2 of this chapter is extended beyond three (3) years for a particular tax liability, the person must retain the books and records until the assessment period is over.
- (c) A person must allow inspection of the books and records and returns by the department or its authorized agents at all reasonable times.
- (d) A person must, on request by the department, furnish a copy of any federal returns that he has filed.

Next, the Department refers to IFTA Articles of Agreement § R700 (2013), which provides:

Every licensee shall maintain records to substantiate information reported on the tax returns. *Operational records shall be maintained or be made available for audit in the base jurisdiction.* Recordkeeping requirements shall be specified in the IFTA Procedures Manual. *(Emphasis added).*

Next, IFTA Articles of Agreement § R1210 states:

- .100 In the event that any licensee
- .005 fails, neglects, or refuses to file a tax return when due;
- .010 fails to make records available upon written request by the base jurisdiction; or
- .015 fails to maintain records from which the licensee's true liability may be determined, the base jurisdiction shall proceed in accordance with .200 and .300.

.200 On the basis of the best information available to it, the base jurisdiction shall:

.005 determine the tax liability of the licensee for each jurisdiction and/or

.010 revoke or suspend the license of any licensee who fails, neglects or refuses to file a tax report with full payment of tax when due, in accordance with the base jurisdiction's laws.

Both .200.005 and .200.010 may be utilized by the base jurisdiction. For purposes of assessment pursuant to .100.010 or .100.015, the base jurisdiction must issue a written request for records giving the licensee thirty (30) days to provide the records or to issue a notice of insufficient records.

.300 The base jurisdiction shall, after adding the appropriate penalties and interest, serve an assessment issued pursuant to .200.005 upon the licensee in the same manner as an audit assessment or in accordance with the laws of the base jurisdiction. The assessment made by a base jurisdiction pursuant to this procedure shall be presumed to be correct and, in any case where the validity of the assessment is questioned, the burden shall be on the licensee to establish by a fair preponderance of evidence that the assessment is erroneous or excessive.

(Emphasis added).

Next, IFTA Articles of Agreement § R1230 provides:

The base jurisdiction, for itself and on behalf of the other jurisdictions, shall assess interest on all delinquent taxes due each jurisdiction except taxes collected directly by other jurisdictions in accordance with IFTA Procedures Manual Sections P1000 and P1120.300.

Also, IFTA Procedures Manual § P510 states:

A licensee shall retain the records of its operations to which IFTA reporting requirements apply for a period of four years following the date the IFTA tax return for such operations was due or was filed, whichever is later, plus any period covered by waivers or jeopardy assessments.

A licensee must preserve all fuel and distance records for the period covered by the quarterly tax returns for any periods under audit in accordance with the laws of the base jurisdiction.

On request, the licensee shall make such records available for audit to any member jurisdiction.

If the licensee's records are not maintained in the base jurisdiction and the base jurisdiction's auditors travel to the location where records are maintained, the base jurisdiction may require the licensee to pay the base jurisdiction's reasonable per diem and travel expenses incurred by the auditor or auditors in performance of an audit.

Following the expiration of the time within which an appeal or request for re-audit or reexamination may be filed under R1360 and R1390, and except in cases of fraud, the findings of an audit, re-audit, or reexamination shall be final as to all member jurisdictions and as to the licensee audited.

Unless a waiver of the statute of limitations is granted by the licensee, no assessment for deficiency or any refund shall be made for any period for which the licensee is not required to retain records. A licensee's request for refund shall extend the period for which records pertaining to the refund must be retained until the request is granted or denied.

(Emphasis added).

IFTA Procedures Manual § P530 states:

The records maintained by a licensee under this article shall be adequate to enable the base jurisdiction to verify the distances traveled and fuel purchased by the licensee for the period under audit and to evaluate the accuracy of the licensee's distance and fuel accounting systems for its fleet.

The adequacy of a licensee's records is to be ascertained by the records' sufficiency and appropriateness. Sufficiency is a measure of the quantity of records produced; that is, whether there are enough records to substantially document the operations of the licensee's fleet. *The appropriateness of the records is a measure of their quality; that is, whether the records contain the kind of information an auditor needs to audit the licensee for the purposes stated in the preceding paragraph. Records that are sufficient and appropriate are to be deemed adequate.*

Provided a licensee's records are adequate under this definition, the records may be produced through any means, and retained in any format or medium available to the licensee and accessible by the base jurisdiction. If records are presented in a format or in a manner in which the base jurisdiction cannot audit them, they have not been made available as required.

Licensee records which do not contain all of the elements set out in P540, P550 and P560 may still, depending on the sufficiency and appropriateness of the records and of the licensee's operations, be adequate for an audit.
(*Emphasis added*).

Since IFTA Procedures Manual § P530 refers to IFTA Procedures Manual § P540, § P550, and § P560, those sections are as follows. IFTA Procedures Manual § P540 states:

.100 Distance records produced by a means other than a vehicle-tracking system that substantially document the fleet's operations and contain the following elements shall be accepted by the base jurisdiction as adequate under this article:

- .005 the beginning and ending dates of the trip to which the records pertain
- .010 the origin and destination of the trip
- .015 the route of travel
- .020 the beginning and ending reading from the odometer, hubodometer, engine control module (ECM), or any similar device for the trip
- .025 the total distance of the trip
- .030 the distance traveled in each jurisdiction during the trip
- .035 the vehicle identification number or vehicle unit number

.200 Distance records produced wholly or partly by a vehicle-tracking system, including a system based on a global positioning system (GPS):

- .005 the original GPS or other location data for the vehicle to which the records pertain
- .010 the date and time of each GPS or other system reading, at intervals sufficient to validate the total distance traveled in each jurisdiction
- .015 the location of each GPS or other system reading
- .020 the beginning and ending reading from the odometer, hubodometer, engine control module (ECM), or any similar device for the period to which the records pertain
- .025 the calculated distance between each GPS or other system reading
- .030 the route of the vehicle's travel
- .035 the total distance traveled by the vehicle
- .040 the distance traveled in each jurisdiction
- .045 the vehicle identification number or vehicle unit number

.300 A licensee's reporting of distance may deviate slightly from a calendar quarter basis provided that:

- .005 the beginning and ending dates of the licensee's reported distance reflects a consistent cut-off procedure,
- .010 the deviations do not materially affect the reporting of the licensee's operations,
- .015 the deviations do not materially delay the payment of taxes due,
- .020 the cut-off dates for both distance and fuel are the same, and
- .025 the base jurisdiction can reconcile the reported distance for the period through audit.

IFTA Procedures Manual § P550 provides:

.100 The licensee shall maintain complete records of all motor fuel purchased, received, or used in the conduct of its business, and on request, produce these records for audit. The records shall be adequate for the auditor to verify the total amount of fuel placed into the licensee's qualified motor vehicles, by fuel type.

.110 Retail fuel purchases include all those purchases where a licensee buys fuel from a retail station or a bulk storage facility that the licensee does not own, lease, or control.

.200 The base jurisdiction shall not accept, for purposes of allowing tax-paid credit, any fuel record that has been altered, indicates erasures, or is illegible, unless the licensee can demonstrate that the record is valid.

.210 The base jurisdiction shall not allow tax-paid credit for any fuel placed into a vehicle other than a qualified motor vehicle.

.220 The base jurisdiction shall not allow a licensee credit for tax paid on a retail fuel purchase unless the

licensee produces, with respect to the purchase:

- .005 a receipt, invoice, or transaction listing from the seller,
- .010 a credit-card receipt,
- .015 a transaction listing generated by a third party, or
- .020 an electronic or digital record of an original receipt or invoice.

.300 For tax-paid credit, a valid retail receipt, invoice, or transaction listing must contain:

- .005 the date of the fuel purchase
- .010 the name and address of the seller of the fuel (a vendor code, properly identified, is acceptable for this purpose)
- .015 the quantity of fuel purchased
- .020 the type of fuel purchased
- .025 the price of the fuel per gallon or per liter, or the total price of the fuel purchased
- .030 the identification of the qualified motor vehicle into which the fuel was placed
- .035 the name of the purchaser of the fuel (where the qualified motor vehicle being fueled is subject to a lease, the name of either the lessor or lessee is acceptable for this purpose, provided a legal connection can be made between the purchaser named and the licensee)

.400 The licensee shall retain the following records for its bulk storage facilities:

- .005 receipts for all deliveries
- .010 quarterly inventory reconciliations for each tank
- .015 the capacity of each tank
- .020 bulk withdrawal records for every bulk tank at each location

.500 The base jurisdiction shall not allow a licensee tax-paid credit for fuel withdrawn by the licensee from its bulk fuel storage facilities unless the licensee produces records that show:

- .005 the purchase price of the fuel delivered into the bulk storage includes tax paid to the member jurisdiction where the bulk storage is located, or
- .010 the licensee has paid fuel tax to the member jurisdiction where the bulk storage is located.

.600 The licensee shall produce for audit records that contain the following elements for each withdrawal from its bulk storage facilities:

- .005 the location of the bulk storage from which the withdrawal was made
- .010 the date of the withdrawal
- .015 the quantity of fuel withdrawn
- .020 the type of fuel withdrawn
- .025 the identification of the vehicle or equipment into which the fuel was placed

.700 When alternative fuels are purchased or stored in bulk, these same requirements shall apply, in so far as they are practicable. In instances where, with respect to an alternative fuel, a licensee cannot practicably comply with these requirements, the licensee must maintain records that fully document its purchase, storage, and use of that alternative fuel.

.800 A licensee's reporting of fuel may deviate slightly from a calendar quarterly basis provided that:

- .005 the beginning and ending dates of the licensee's reported fuel reflects a consistent cut-off procedure,
- .010 the deviations do not materially affect the reporting of the licensee's operations,
- .015 the deviations do not materially delay the payment of taxes due,
- .020 the cut-off dates are the same for distance and fuel, and
- .025 the base jurisdiction can reconcile the fuel reported in the period through audit.

Then, IFTA Procedures Manual § P560 states:

A monthly summary of the fleet's operations reported on the corresponding quarterly tax return that includes the distance traveled by and the fuel placed into each vehicle in the fleet during the quarter, both in total and by jurisdiction, may be necessary for the efficient audit of the licensee's records. The licensee shall make such summaries available for audit upon due notice and demand by the base jurisdiction.

Taxpayer protests that it was not aware of the odometer reading requirements and only kept records of its fuel

receipts and mileage. Taxpayer has since installed an E-log system in its trucks and has ensured that the records will be kept in accordance with IFTA going forward. Taxpayer did not provide any additional documentation or supporting arguments.

After review of the total sheets and documents regarding the fuel purchased during the audit period, the Department cannot agree with Taxpayer's protest. IFTA Procedures Manual § P550.200 specifically mentions transactional documentation such as receipts from fuel sellers. As required by IFTA Procedures Manual § P530, the records maintained by a licensee shall be adequate to enable the base jurisdiction to verify the distances traveled and fuel purchased by the licensee for the period under audit and to evaluate the accuracy of the licensee's distance and fuel accounting systems for its fleet. In this case, there is no documentation supporting the total sheets. There is insufficient documentation to verify the reported amount of miles driven or fuel purchased. No new documents regarding miles driven or fuel purchased were provided in the hearing process. Taxpayer has not met the burden imposed by IFTA Articles of Agreement § R1210.300 and by IC § 6-8.1-5-1(c).

FINDING

Taxpayer's protest is denied.

II. Tax Administration–Negligence Penalty.

DISCUSSION

The Department issued proposed assessments and the ten percent negligence penalty and interest for the tax year in question. Taxpayer protests the imposition of the penalty.

Pursuant to IC § 6-8.1-10-2.1(a), the Department may assess a negligence penalty if the taxpayer:

- (1) fails to file a return for any of the listed taxes;
- (2) fails to pay the full amount of tax shown on the person's return on or before the due date for the return or payment;
- (3) *incurs, upon examination by the department, a deficiency that is due to negligence;*
- (4) fails to timely remit any tax held in trust for the state; or
- (5) is required to make a payment by electronic funds transfer (as defined in [IC 4-8.1-2-7](#)), overnight courier, or personal delivery and the payment is not received by the department by the due date in funds acceptable to the department.
(*Emphasis added*).

[45 IAC 15-11-2](#)(b) further states:

"Negligence" on behalf of a taxpayer is defined as the failure to use such reasonable care, caution, or diligence as would be expected of an ordinary reasonable taxpayer. Negligence would result from a taxpayer's carelessness, thoughtlessness, disregard or inattention to duties placed upon the taxpayer by the Indiana Code or department regulations. Ignorance of the listed tax laws, rules and/or regulations is treated as negligence. Further, failure to read and follow instructions provided by the department is treated as negligence. Negligence shall be determined on a case by case basis according to the facts and circumstances of each taxpayer.

The Department may waive a negligence penalty when a taxpayer establishes that its failure to pay a tax was due to reasonable cause and not due to negligence. [45 IAC 15-11-2](#)(c). The taxpayer must demonstrate that it exercised ordinary business care in carrying out or failing to carry out a duty giving rise to the penalty. Reasonable cause is fact sensitive and will vary based on the facts of each individual case.

Next, the Department refers to IFTA Articles of Agreement § R1220.100, which states:

The base jurisdiction may assess the licensee a penalty of \$50.00 or 10 percent of delinquent taxes, whichever is greater, for failing to file a tax return, filing a late tax return, underpaying taxes due.
(*Emphasis added*).

Also, IFTA Articles of Agreement § R1260.100 provides:

The base jurisdiction commissioner may waive penalties authorized by this Article for reasonable cause. If a

licensee can demonstrate a tax return was filed late because of misinformation given to the carrier by the base jurisdiction, the interest may be waived for the base jurisdiction if the jurisdiction's statutes allow such a waiver. To waive interest for another jurisdiction, the base jurisdiction must receive written approval from the other jurisdiction.

As discussed in Issue I above, Taxpayer has not established that it did not owe additional IFTA taxes. Taxpayer did not retain records as required by IFTA Procedures Manual § P510 and IFTA Procedures Manual § P510. Taxpayer voluntarily signed up to be part of IFTA and therefore should have known the terms of the agreement. The negligence penalty shall not be waived.

FINDING

Taxpayer's protest is denied.

SUMMARY

Taxpayer is denied on Issue I regarding the imposition of IFTA taxes. Taxpayer is denied on Issue II regarding the imposition of penalty.

May 12, 2020

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An [html](#) version of this document.