

Heavy Vehicle Use Tax (HVUT) Technical Exchange Meeting #2 20 June 2006

1 Arrangements:

- Location: 4th floor, AAMVA Headquarters, 4301 Wilson Blvd, Suite 400, Arlington, VA.
- Time: **9:00 AM – noon**
- Remote participation: A dial-in number will be arranged.
- Check in with receptionist and get a badge. Bring picture ID.
- Beverages will be provided.
- Send files to Valerie.Barnes@jhuapl.edu by 16 June for distribution to AAMVA and remote participants. If changes are made to files after that, please bring the new version on a flash drive or CD to the meeting.
- AAMVA will provide a computer (Office 2003) and projector.

2 Actual Participants:

2.1 In-person

- Federal Motor Carrier Safety Administration (FMCSA) – Jeff Secrist
- Federal Highway Administration (FHWA) – Linda Morris, Gloria Williams
- Internal Revenue Service (IRS) – Carole Sheets, Roy Miller, John Myett
- IRS Contractors – Karen Singh
- American Association of Motor Vehicle Administrators (AAMVA) – Tim Adams, Keith Kiser
- States – Sharon Hopkins (MD), Judy Petersen (VA)
- Carriers – Bob Pitcher [American Trucking Associations (ATA)], Mike Joyce [Owner-Operator Independent Drivers Association (OOIDA)]
- Johns Hopkins University Applied Physics Laboratory (JHU/APL) – DJ Waddell

2.2 Via telecon

- States – Joe Foster (MD), Jaki Berry (CO), Cathy Beedle (NE), Debra Hall (ID), Nancy McCorkle (CT)
- Carriers – Carolyn Barr (Con-Way), John Jabas (FFE Industries)
- JHU/APL – Valerie Barnes

3 Planned Objectives:

- Answer critical questions from IRS
- If time permits (not likely), address regulatory issues

4 Planned Agenda:

- Interim solution for Schedule 1 (John Myett)
- Vehicle Identification Number (VIN) data (Roy Miller)
- Regulatory issues (Tim Adams/Carole Sheets) – Note: no time for this topic
- Next steps

5 Interim Solution for Schedule 1 (John Myett)

This section of the agenda began with a discussion of what was meant by an “interim solution”. John Myett explained that the IRS realizes that they must provide something (electronically) that is functionally equivalent to the stamped paper Schedule 1, which the taxpayer can use as proof of HVUT payment for vehicle registration. Mr. Myett indicated that the “interim solution” should be available starting in August 2007. During the ensuing discussion, states described their current processes and carriers expressed their perspectives on what they need to demonstrate that they have paid the HVUT.

There was general recognition that not all jurisdictions will immediately implement systems to verify HVUT payment status online. The “interim solution” to verify HVUT payment status for e-filers must be provided indefinitely.

5.1 How does the taxpayer provide the Schedule 1?

Normally, via paper copy. In some states (e.g., Virginia) as soon as HVUT is paid, the taxpayer can submit the stamped Schedule 1 to the state. The state then pre-approves that vehicle for registration/renewal in the period for which HVUT was paid. This allows the subsequent registration/renewal process to proceed electronically.

5.2 Are any alternative solutions used to receive and verify the Schedule 1? (Fax, e-mail, etc...)

To improve customer service, states try to allow as much flexibility as possible. Some reported that taxpayers fax in the stamped Schedule 1 or e-mail an image file of the stamped Schedule 1.

5.3 What is done to verify the Schedule 1 data?

For a 2290 with a small number of VINs, the states reported that they check VIN on the stamped Schedule 1/2290 against the VIN being registered. If it appears that the VIN is the same within

reasonable tolerance (perhaps one digit is different), they declare a match and register the vehicle.

If there are a large number of VINs on the HVUT tax form, states do not check every VIN. For example, Connecticut reported that registration agents check 25 VINs at random.

5.4 How is Schedule 1 stored/retained? How long?

For International Registration Plan (IRP) vehicles, several states said they store the paper copies for 3 years. For intrastate vehicles, registration is often handled at the county level. Due to the high volume of intrastate vehicles and limited storage capacity in county offices, either the paper forms are stored for a shorter period (~ 1 year) or are scanned. Most states plan to scan the 2290 for IRP vehicles for long-term storage; a few states already scan them.

Virginia stores the paper forms briefly (~ 6 months). A vehicle registration agent records that the 2290 was checked at registration time. That electronic record was sufficient to satisfy the IRS auditors.

Subsequent to the meeting, research revealed this requirement about retention of records:

23 CFR 669.21 Procedure for evaluating state compliance.

The FHWA shall periodically review the state's procedures for complying with 23 U.S.C. 141(d), including an inspection of supporting documentation and records. The state shall retain a copy of the receipted IRS Schedule 1 (Form 2290), or an acceptable substitute prescribed by 26 CFR part 41, §41.6001-2, for a **period of 1 year** for purposes of evaluating state compliance with 23 U.S.C. 141(d) by the FHWA. In lieu of retention of Schedule 1, states may make an appropriate entry in an automated file or on registration documents retained by the state or retain a microfilm or microfiche copy of Schedule 1 or of the automated file as evidence that proof of payment has been received before vehicles subject to the Federal heavy vehicle use tax are registered.

5.5 When considering alternatives, what is most important for your operation?

The states identified these characteristics as highly important:

- The system must accommodate the reality that states handle IRP and intrastate registrations differently (different agencies, processing agents, processing locations, storage method and duration).
- The system must accommodate both paper filers and e-filers.
- The system must satisfy FHWA's audit requirements.
- Filer must not have to wait 6-8 weeks for a response from an e-filed 2290.

Mr. Myett described an interim solution for e-filing and making payment status available. The goals are to provide high-quality customer service to the e-filers and to support the states that are

ready to implement an electronic process for verifying HVUT and those that are not. He suggested that the solution needs to be either paper-based or a close facsimile that shows all the information that today is shown on the paper stamped Schedule 1. When the IRS is processing a 2290 filed electronically, they could verify that a payment has been submitted and certify that payment for submitted VINs has been received. Within 6 hours, the IRS could send an acknowledgement to the originator of the e-filed 2290; the actual service time will almost always be far less than the 6 hours, and will usually be within 1-2 minutes. The acknowledgment could include a digitally signed graphic PDF file that looks like a stamped Schedule 1. That would allow the state to examine the PDF file electronically or examine a printed copy of the PDF file provided by the carrier.

One capability desired (stated by MD) is that taxpayers should be able to go back later and get another copy, or at least to specify an additional email address as a destination for the e-filing acknowledgement message.

Action Item: FHWA (Linda Morris) clarify the audit requirements for electronically filed 2290 returns.

5.6 What would be the ideal solution for your operation? (Note: Since all Forms 2290 are not mandated for e-file, there will likely be many Schedule 1s received via the current method)

We did not really discuss an “ideal” solution.

5.7 Could your operation support electronic submission of a substitute Schedule 1? (E-mail, Web upload)

The interim solution described by John Myett was well received, if it meets FHWA’s audit requirements.

5.8 Could you support an electronic Schedule 1 in PDF format? What about other formats?

Other formats were not discussed. Several participants emphasized the importance of developing a truly electronic solution for verifying HVUT payment status so that vehicle registration activities can be automated. The Schedule 1-equivalent file in PDF format is a good interim approach, but the “VIN Database” is critical for achieving the intended benefits of electronic credentialing Core CVISN capabilities.

6 VIN Data (Roy Miller)

This section of the agenda focused on the longer-term “VIN Data” solution for verifying HVUT payment status. Roy Miller provided the list of topics in this section.

6.1 Use Form 2290 instructions for refunds due to the lack of any regulations.

This topic refers to a question from a previous meeting/telecon. Mr. Miller stated that he was unable to find any IRS regulation that addressed handling refunds other than as the July 2006 instructions for 2290 indicate.

Action Item: IRS (Carole Sheets) investigate and report back to the group with specific guidance on how to handle refunds.

6.2 What percentage of state participation is needed to make the use of VIN data records a viable solution? We need a target percentage for requirement purposes.

Discussion suggested that states will participate when there is a clear understanding about what they will have to do to use the HVUT payment status data and how it will impact FHWA audits. As more carriers use e-filing, more states will be interested in accessing the payment status online.

In most states, the overwhelming number of carriers are small (fewer than 25 vehicles) and operate intrastate. If the VIN data records could capture return information for those small carriers and for intrastate vehicles, even if filed on paper, states will be highly motivated to verify HVUT payment status online.

An alternative question was suggested: What percentage of trucks would need to participate to make implementation worthwhile for the states? States indicated they needed to talk to their information technology departments to determine technical effort versus payoff, but it seems that if it is a simple yes/no response to an input VIN, it would be worthwhile developing the capability even for limited participation.

It was suggested that the IRS work with a set of carriers and one state to prototype a solution. Mr. Miller stated that the IRS hopes to have a system up by June 2007 and will seek at least one state to help work out the bugs between then and August.

6.3 VIN data records to be accessed by states will be stored _____?

The IRS can house the VIN data. There would be one “database” for all jurisdictions. Jurisdictions would register with the IRS. Users would be authenticated when they connect.

A state would have multiple (potentially hundreds) of vehicle registration agents, resulting in multiple queries at the same time from that jurisdiction. The IRS would prefer all queries from one state to be funneled through a single portal for that state.

There was a brief discussion about other alternatives. Do we want the IRS to hold the data or put it into an existing data store that states already use? Is there any difference from the disclosure perspective? Not all states use data from or put data into SAFER yet. SAFER is not particularly well set up to accommodate a deluge of real-time queries. Although no firm conclusion was reached, the group seemed to lean towards the IRS housing the data. Further discussion is required to resolve the issue.

6.4 What data can and would the states provide for this data store?

States could provide a list of registered VINs and associated weights for the IRS to use to verify 2290 data. The data would come from individual states and from multiple systems (IRP and intrastate) within the states. It would be difficult to achieve 100% accuracy unless there were some lock-step update process between the states and the IRS whenever new vehicles are registered.

States urged the IRS to check the structure of the VIN based on the algorithm for VIN definition. Although the check will not pass all valid VINs, applying a structure check when the 2290 is processed will greatly improve the quality of VIN data passed on to the states in the HVUT payment status database. The IRS needs to establish an exception process for VINs that are flagged as invalid. Perhaps the e-filer could be asked to explain why the VIN didn't pass the automatic structure check.

Most states reported that they check for a valid VIN when the vehicle is titled but not when it is registered. This may mean that there are some invalid VINs recorded in the states' vehicle registration databases.

Action Item: HVUT ad hoc team (Tim Adams) continue to explore the concept of the states providing VIN data to the IRS to assist in checking the 2290s.

6.5 VIN data records will be delivered daily. Is there a requirement to deliver more often during yearly filings?

States prefer a real time update. VIN data records should be posted to the HVUT payment status database as soon as the IRS has acknowledged successful processing of the 2290 to the originator.

6.6 What interagency agreements are needed for this effort? Does DOT have some existing agreements with the states that can be utilized?

Not discussed.

6.7 For states and jurisdictions that do not participate, records need to be sent. How can we accomplish this?

Not discussed.

6.8 What data elements must the IRS provide to the states for on-line verification of HVUT payment status?

The draft list below shows the comments made during the meeting.

- Vehicle identification number (VIN)
- Category (weight class)
- Payment indicator that indicates whether or not the tax obligation has been met. Should also indicate whether a credit or refund was issued. The field should repeat for a particular VIN.
- Payment cycle data that contains information of when a payment was made (actually when payment status changes) and processed. The field will be in yyyy-mm format. The field will repeat with the payment indicator.
- Time period (months) for which the payment is valid
- If the state must verify that the vehicle registrant was the HVUT taxpayer, then the database should also include information to identify the taxpayer, title owner, and vehicle registrant. At this time, Mr. Miller indicated that the IRS does not intend to include the Employer Identification Number (EIN). Gloria Williams indicated that the FHWA wants to make sure that the taxpayer pays tax according to the registered weight. When asked if FHWA cares who pays the tax, the answer was no. Industry representatives indicated that it is important to them. This issue must be resolved.
- If FHWA requires historical information, then an "event" indicator (credit applied, refund issued, etc.) should be added and some other fields listed above might need to be repeating. Actually, all fields should be recorded whenever there is a change. The most recent date would be current status.

Mr. Miller asked if any registration process required access to the previous year's filing verification. CO replied that they look at the payment status for the vehicle's registration expiration date, which might fall in the previous year. MD said they check that the registrant is not submitting the same Schedule 1 they did the previous year.

A ground rule was established that states should have no additional compliance role as a result of e-filing and e-verification.

Action Item: IRS (Carole Sheets) and FHWA (Linda Morris) determine who should check the registered weight against the HVUT paid weight and who should follow up on the problem. One suggestion was that the state could flag the problem at vehicle registration time and let the IRS follow up with the taxpayer.

Action Item: IRS (Roy Miller) specify the proposed data elements, including complete descriptions of each field.

Action Item: HVUT ad hoc team (all) review the data element specification and provide feedback to Mr. Miller. Valerie Barnes will schedule this activity when the data element specification is received.

7 Regulatory Issues – Not discussed

During every HVUT discussion, we continue to struggle with issues about what the rules are - for tax filers and for states. Until those "regulatory" issues are resolved, it is impossible to finalize the data requirements. There was insufficient time in this technical exchange meeting to discuss these issues. There are many different scenarios that apply to these questions and others that need to be addressed. If we can clear up these issues and settle on what the requirements are, the automation phase will benefit and we should be able to make some strides toward improving compliance as well.

Action Item (Carole Sheets/Tim Adams): Schedule a meeting with appropriate IRS regulatory experts as soon as possible to work through these issues.

- Can a taxpayer other than the title owner pay the tax? If so, whose EIN should be on the 2290?
- When can a taxpayer apply for credit? How?
- When can a taxpayer apply for a refund? How?
- When a vehicle is sold, it is no longer in service from the seller's perspective. When that vehicle is purchased by someone else, can they use "credit" from the seller's HVUT payment? If not, how long does the buyer have to file 2290 and pay HVUT?
- For what vehicles does the 60-day rule apply? For what vehicles does it not apply?
- Must the state verify that the vehicle registrant is the taxpayer?
- What must FHWA examine in its audit processes to verify regulatory compliance? (question for FHWA and IRS)

8 Wrap-up

The next discussion will occur during the CVISN HVUT ad hoc team telecon scheduled for 17 July at 2:00 PM Eastern.