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**LEGAL AND MONETARY**  
**AFFAIRS SUBCOMMITTEE**  
**COMMITTEE ON** 72-0161  
**GOVERNMENT OPERATIONS**  
**HOUSE OF REPRESENTATIVES**



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**Administration Of The  
 Federal Highway Use Tax  
 By The Internal Revenue Service**

B-164497 (3)

Department of the Treasury

**BY THE COMPTROLLER GENERAL  
 OF THE UNITED STATES**

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MAY 15, 1972



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164497(3)

Dear Mr. Chairman:

In response to your June 28, 1971, request, this is our report on the administration of the Federal highway use tax by the Internal Revenue Service, Department of the Treasury.

We believe that the contents of this report would be of interest to committees and other members of Congress. Release of the report, however, will be made only upon your agreement or upon public announcement by you concerning its contents.

Sincerely yours,

A handwritten signature in black ink that reads "James B. Stacks".

Comptroller General  
of the United States

The Honorable John S. Monagan, Chairman  
Legal and Monetary Affairs Subcommittee  
Committee on Government Operations  
House of Representatives

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ABBREVIATIONS

FHWA Federal Highway Administration

GAO General Accounting Office

IRS Internal Revenue Service

D I G E S T

WHY THE REVIEW WAS MADE

61. The Chairman, Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, requested the General Accounting Office (GAO) to review the effectiveness of the Internal Revenue Service (IRS) in collecting the Federal highway use tax which is paid on a basis of voluntary compliance. (See p. 7.)

GAO was requested to provide information on:

- The basis and significance of a 7.7-percent dollar-delinquency rate in payments of the highway use tax cited by IRS in a letter to the Subcommittee dated March 9, 1971.
- Action taken on truck registration data provided to IRS by the States.
- Action taken by IRS to identify truck owners liable for the highway use tax in those States not providing IRS with truck registration data.
- The extent to which truck owners liable for the tax did not file returns and the significance of the corresponding unpaid taxes.

GAO was requested also to provide any additional information concerning the administration of the tax which it believed would be helpful to the Subcommittee. (See app. I, p. 25.)

Access to records denied

IRS denied GAO the right of access to its records on tax administration on the basis that only the Joint Committee on Internal Revenue Taxation had the right to review the IRS administration of the tax laws. Therefore this review of IRS highway use tax activities was restricted to an analysis of summary data made available by IRS. (See p. 6.)

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FINDINGS AND CONCLUSIONS

IRS informed GAO that the 7.7-percent dollar-delinquency rate should not have been provided to the Subcommittee because it had been based on the results of a 1965 taxpayer compliance measurement program study rather

than on the results of a study conducted in 1969 on tax year 1968 tax returns.

IRS stated that the 1969 study indicated a highway use tax dollar-delinquency rate ranging from about 3.7 percent to 6.1 percent and a dollar delinquency associated with these percentages ranging from about \$3.8 million to \$6.4 million. (See p. 9.)

The Director of the IRS Collection Division advised GAO that, for measuring precisely the tax delinquency, the study had limitations because extremely large businesses were not contacted during the study. He advised GAO also that, under the procedures for conducting the study, some truck owners were not identified as businesses and therefore were not contacted. He explained that these conditions were accepted by IRS management because of resource limitations and because the purpose of the study was to achieve a relative estimate of the tax significance of delinquency for various taxes. (See p. 12.)

GAO found that truck registration data was made available to IRS by all but one State and that IRS could obtain registration data in that State from a commercial source. When such data is used by IRS, it is cross-referenced to IRS taxpayer information to identify nonfilers of highway use tax returns. This action is part of the IRS returns compliance program. (See p. 15.)

In fiscal years 1970 and 1971, 47 and 45 IRS district offices, respectively, performed some returns compliance program work on the highway use tax which resulted in the collection of additional taxes of \$1,096,000 and \$1,538,000. The major part of this work was carried out by nine IRS district offices that formally scheduled returns compliance work on the highway use tax. During fiscal years 1970 and 1971, 11 and 13 IRS district offices, respectively, did not perform any returns compliance program work and 25 and 22 district offices, respectively, contacted 10 or fewer taxpayers for returns compliance program purposes. (See pp. 15 and 16.)

The returns compliance program work, both scheduled and unscheduled, is conducted by IRS district offices on a manpower-available basis. In the fiscal year 1972 budget requests, IRS informed the Congress that, because of a lack of manpower in recent years, its district offices had been unable to follow up on the State information through its returns compliance programs. (See p. 15.)

Because GAO's review was restricted to an analysis of summary data provided by IRS which did not include source data, GAO was unable to ascertain whether the scheduled returns compliance program work for the nine districts represented a partial or complete cross-referencing of State truck registration data against IRS records of truck owners who filed highway use tax returns. (See p. 16.)

The summary data provided by IRS on the 1969 taxpayer compliance measurement program study and on returns compliance program activities indicated that on a national basis significant amounts of highway use taxes were not being collected. (See pp. 11 and 16.)

GAO believes that IRS should strengthen enforcement of the highway use tax law by adopting a long-standing recommendation by the Federal Highway Administration (FHWA) that decals be placed on trucks for which the tax has been paid. (See p. 17.)

GAO was advised by FHWA that, during the normal work activities of its safety investigators with the cooperation of State employees, about 250,000 trucks could be inspected annually for compliance with a highway use tax decal requirement. (See p. 17.)

GAO believes that the increased compliance that would result from the impact of a decal system on truck owners, as well as the enforcement effect of FHWA personnel reporting violations, would justify any additional administrative expenses involved. (See p. 20.)

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

On February 24, 1972, the IRS Assistant Commissioner for Accounts, Compliance, and Taxpayer Services advised GAO that a decal system has merit. In lieu of supporting a decal system at this time, however, he stated that, during fiscal year 1973, IRS was going to conduct an intensive highway use tax collection program utilizing State truck registration data. (See p. 21.)

The procedures for carrying out the program, as outlined by the Assistant Commissioner, essentially involve a complete cross-referencing of all truck registrants in the States and the District of Columbia to IRS taxpayer information to identify and follow up on nonfilers of highway use tax returns. (See p. 21.)

The Assistant Commissioner also explained that manpower would be available for this work as a result of (1) a recent IRS reorganization and (2) increased manpower provided for in the fiscal year 1973 budget request. He estimated that, during fiscal year 1973, about 180 to 200 man-years would be devoted to the highway use tax returns compliance program. The Assistant Commissioner stated that, if the desired effect was not accomplished by these means, IRS would give serious consideration to implementing a decal system. (See p. 22.)

At GAO's request the Director of the Collection Division on March 7, 1972, provided budgetary information on the anticipated increase in highway use tax revenues that would result from an intensive collection program. He advised that the application of 180 direct man-years to a full-scale highway use tax compliance program would result in securing an estimated 75,000 to 126,000 returns with an assessed value of \$15.2 million to \$26.6 million. (See p. 22.)

The Director noted that these budgetary estimates were greater than the \$3.8 million to \$6.4 million indicated by the 1969 taxpayer compliance measurement program study. He indicated that the difference in estimates arose because the study had been based on 1968 data and the budgetary estimates had been based on current returns compliance program data. (See p. 22.)



Decal system should be implemented

IRS estimated that the cost of a decal system in 1969 would have been about \$500,000, whereas comparable costs for the returns compliance program, as estimated by IRS in the fiscal year 1973 budget request, would be about \$2.2 million. (See p. 22.)

The use of decals to identify trucks for which the tax has been paid, to a large extent, would be self-policing. In contrast, the highway use tax returns compliance program will involve a time-consuming and cumbersome process of reviewing State registration records and converting the data into a form usable by IRS. (See p. 22.)

Therefore GAO remains of the opinion that the decal system offers the most economical and efficient means for continued enforcement of the Federal highway use tax. (See p. 23.)

Planned use of personnel is inefficient

Also GAO believes that the nationwide highway use tax collection program outlined by the Assistant Commissioner may be an inefficient use of personnel when compared with collections that could be achieved through alternative uses of personnel. (See p. 23.)

In its fiscal year 1973 budget justifications, IRS is requesting the Congress to provide about \$5 million for 400 additional man-years to identify taxpayers who have never filed returns. IRS stated that, with these additional man-years, about 898,000 delinquent returns, having an assessed dollar value of \$423 million, would be secured. (See p. 23.)

If, as indicated by the Director of the Collection Division, 180 of the 400 man-years will be devoted to identifying delinquent taxpayers and to securing highway use tax returns having a maximum assessed dollar value of \$26.6 million, the remaining 220 man-years will be devoted to identifying other delinquent taxpayers and to securing returns having an assessed dollar value of about \$396.4 million. (See p. 23.)

On the basis of this data, GAO believes that the designation of personnel to carry out a highway use tax returns compliance program is an inefficient use of manpower which should be devoted to other work that will provide a better return to the Federal Government. (See p. 23.)

## CHAPTER 1

### INTRODUCTION

On January 25, 1971, the Chairman, Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, requested that the Internal Revenue Service provide information on the manner in which the Federal highway use tax was collected and the extent of noncompliance with provisions of the Internal Revenue Code under which the tax was imposed.

IRS responded to the Subcommittee on March 9, 1971 (see app. II), and stated that it had not conducted a nationwide compliance study in the highway use tax area but that, on the basis of an 1968 overall compliance study there was a potential 7.7-percent dollar-delinquency rate. IRS stated also that most States provided IRS with information from their motor vehicle registration records, which was cross-referenced against IRS files and that, when a potentially delinquent taxpayer was revealed, the information was channeled to the IRS field office having jurisdiction for investigation.

By letter dated June 28, 1971, the Chairman of the Subcommittee requested the General Accounting Office to make an independent review of the effectiveness of the IRS collection of the Federal highway use tax and to comment on the information provided previously to the Subcommittee by IRS.

The Chairman expressed particular interest in:

- The significance of the 7.7-percent dollar-delinquency rate cited by IRS and the basis for the figure. (See ch. 2.)
- Which States provided truck registration data for IRS use and the actions taken on it, including verification procedures. (See ch. 3.)
- The action taken by IRS to identify truck owners who were liable for the tax in those States where truck registration data was not provided by the States. (See ch. 3.)

--The extent to which truck owners, who were liable for the tax, did not file returns and the significance of the corresponding unpaid tax. (See ch. 4, par. 1.)

Finally, the Chairman requested that we provide any additional information concerning the administration of the Federal highway use tax which we believe would be helpful to the Subcommittee. (See ch. 4.)

During our review an IRS official advised us that an opinion of the Chief Counsel of IRS dated May 20, 1968, held that IRS was barred by sections 6406 and 8022 of the Internal Revenue Code from allowing GAO to review any documents that pertain to the administration of the Internal Revenue laws. He advised us also that the Chief Counsel's opinion held that the Internal Revenue Code limited the right to review IRS's administration of the tax laws to the Joint Committee on Internal Revenue Taxation. IRS did agree, however, to make available to us summary data relating to its highway use tax compliance studies and programs. Our review at IRS was therefore limited to an analysis of the summary data provided and to discussions with officials responsible for administering the law pertaining to this tax.

#### LEGISLATIVE HISTORY OF THE FEDERAL HIGHWAY USE TAX

To provide additional revenue to accelerate the construction of a safe and efficient system of Federal-aid highways in each State, the Highway Revenue Act of 1956 (26 U.S.C. 4481) established the Federal highway use tax and increased the rates on a number of other excise taxes. The highway use tax was imposed on the registered owners of certain highway motor vehicles having a taxable gross weight of more than 26,000 pounds. The tax was levied at the rate of \$1.50 for each 1,000 pounds of taxable gross weight, or a fraction thereof, and was scheduled to expire on June 30, 1972.

Taxable gross weight was defined as the actual unloaded weight of a single-unit truck or truck-tractor, fully equipped for service, plus the actual unloaded weight of any semitrailer or trailer customarily used in combination with the truck or truck-tractor, and the maximum load customarily

carried on these vehicles and vehicle combinations. The taxable gross weight of a bus was defined as its actual unloaded weight, fully equipped for service, plus 150 pounds for the driver and for each passenger-seating unit.

In 1961 the Highway Revenue Act of 1956 was amended to provide additional funds to expedite the construction, reconstruction, or improvement, inclusive of necessary bridges and tunnels, of the Interstate Highway System. One of the means to raise these additional funds was an increase in the highway use tax from \$1.50 to \$3.00 for each 1,000 pounds of taxable gross weight, or a fraction thereof, beginning July 1, 1961. Other provisions extended the expiration date of the tax until September 30, 1972, and provided the taxpayer with an option to pay the tax in installments.

Under the Federal-Aid Highway Act of 1970, the highway use tax was extended an additional 5 years to September 30, 1977. This extension was made on the basis of a revised estimate by the Secretary of Transportation of the cost of completing the Interstate Highway System.

#### ADMINISTRATIVE PROCEDURES FOR COLLECTION OF FEDERAL HIGHWAY USE TAX

IRS administers the Federal highway use tax program<sup>1</sup> through its seven regional offices, nine service centers, and 58 district offices. Collection of the highway use tax is based on the principle of voluntary compliance by the taxpayer under which each taxpayer computes and pays his tax in accordance with prescribed guidelines. Guidelines governing the payment of highway use taxes are cited on Form 2290, Federal Use Tax Return on Highway Motor Vehicles.<sup>2</sup>

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<sup>1</sup> An additional service center is scheduled to be opened in Brookhaven, N.Y., during July 1972.

<sup>2</sup> See app. III for a copy of Form 2290, which shows the categories of vehicles on which the tax is imposed. Also see app. IV for pictures of vehicles subject to the tax.

During fiscal year 1971 IRS collected over \$145 million in highway use taxes.

IRS attempts to increase compliance with the highway use tax by informing taxpayers, who are responsible for this tax, of their obligations under the law. Methods that are used include purchasing time for radio and television spot announcements; publishing news releases; and distributing printed material to the public through IRS district offices, motor vehicle dealers, and State licensing authorities. Recently FHWA agreed to have its field personnel distribute the forms for filing the highway use tax return and IRS Publication 349, which explains the tax, during regular vehicle safety inspections. FHWA has agreed also to send the IRS forms and publications to persons just entering the trucking business who may not be aware of their liability for this tax.

Using truck registration data obtained from the States, a limited number of IRS district offices have conducted enforcement programs designed to discover highway use tax delinquency and to secure delinquent returns. Prior to June 1971 the program provided for a comparison of the available State registration data with listings prepared by the service centers of taxpayers who had filed a highway use tax return. This comparison was designed to identify (1) discrepancies between data provided on the State registration records and data provided on the highway use tax returns and (2) those taxpayers who had not filed a return.

In June 1971, however, IRS discontinued the service center listings of taxpayers who had filed returns because it planned to establish regional master files of such returns in July 1972 and deemed it impractical to produce computer-generated listings until that time. In the interim, photocopies of all highway use tax returns filed by taxpayers at each service center are to be provided to the district offices having cognizance over the respective returns.

## CHAPTER 2

### ESTIMATE OF UNCOLLECTED FEDERAL HIGHWAY USE TAXES

In its March 9, 1971, response to the Legal and Monetary Affairs Subcommittee's request for the results of any studies which measured the extent of noncompliance with the highway use tax law, IRS stated that a 1968 taxpayer compliance measurement program study indicated that there was a potential 7.7-percent highway use tax dollar-delinquency rate at that time. This delinquency rate was attributable to a lack of taxpayer familiarity with the Federal highway use tax law. Subsequently the Subcommittee Chairman requested us to provide information on the significance of the 7.7-percent-delinquency rate cited by IRS and the basis for the rate. (See app. I.)

IRS informed us that, because the results of a more recent study conducted in 1969 had been available, the 7.7-percent dollar-delinquency rate should not have been provided to the Subcommittee. IRS informed us also that the reference to a 1968 study in the letter to the Subcommittee should have been to a 1965 study because the dollar-delinquency percentage cited had been based on that data. In addition, IRS informed us that the 1969 study was more comprehensive than the 1965 study because it was carried out on a nationwide basis, whereas the earlier study involved only four of the seven IRS regions.

The Director of the IRS Collection Division on January 28, 1972, advised us that the 1969 study of tax year 1968 tax returns indicated a highway use tax dollar-delinquency rate ranging from about 3.7 percent to 6.1 percent. He stated that the dollar delinquency associated with these percentages ranged from about \$3.8 million to \$6.4 million for fiscal year 1968.

To provide the Subcommittee with the most current and comprehensive information that is available from IRS on non-compliance with the highway use tax law, the following sections of this chapter relate to the scope and significance of the 1969 study rather than to the 1965 study.

SCOPE OF TAXPAYER COMPLIANCE  
MEASUREMENT PROGRAM STUDY

The IRS 1969 taxpayer compliance measurement program study encompassed various tax returns, including highway use tax returns, that are required to be filed by nonfarm business taxpayers and exempt organizations. Churches, Government agencies, and large businesses, however, were excluded from the study. Large businesses were defined as all nonfarm sole proprietorships and fiduciaries having annual incomes of \$500,000, or more, and corporations having assets of \$25 million, or more. The objectives of the study included:

- Estimating the extent and tax significance of delinquencies which existed in the filing of tax returns.
- Determining the taxpayer group identification characteristics associated with nonfiling, for use in efforts to increase voluntary compliance and to improve enforcement procedures for securing delinquent returns.
- Measuring the size of the tax delinquency of those types of businesses which were not included in the business master file of taxpayers maintained at the National Computer Center, Martinsburg, West Virginia. (The Federal highway use tax returns are not included in the business master file.)

In making the study IRS revenue officers contacted about 35,000 businesses which IRS had selected in a nationwide sample. The sample selections were made from the names of businesses appearing in the IRS business master file of taxpayers and from a canvass of certain geographical areas which identified businesses not appearing on the business master file.

Selections of the taxpayers from the business master file were made on a random basis; the names and addresses of the taxpayers were furnished to each district office and were used by the revenue officers to determine whether the required tax returns had been filed. About 21,000 business taxpayers were contacted.

The canvassing phase of the study was initiated through an IRS random selection of 1,114 geographical areas throughout the United States. With the assistance of the Bureau of Census, these areas were reduced to selected areas--such as a cluster of blocks within a city--that were believed to contain at least 50 percent of the businesses within each of the 1,114 geographical areas. A door-to-door canvass of the selected areas was conducted by revenue officers to identify those businesses not listed on a compilation from the business master file of taxpayers who had filed business returns in the selected areas and to contact the identified businesses to determine whether the required tax returns had been filed. About 14,000 businesses were contacted.

HIGHWAY USE TAX DATA OBTAINED AS A RESULT  
OF TAXPAYER COMPLIANCE MEASUREMENT PROGRAM STUDY

Of the approximately 35,000 taxpayers contacted during the 1969 taxpayer compliance measurement program study, IRS found that only 700 had been required to file highway use tax returns. Of these taxpayers, 673 were listed in the business master file of taxpayers and 27 were identified by canvassing the selected geographical areas. The following tabulation summarizes the data developed during the study that relates to the highway use tax.

<u>Status of return</u>	<u>Number of taxpayers</u>			<u>Tax liability</u>
	<u>Business master file</u>	<u>Canvassing</u>	<u>Total</u>	
Timely filed	544	12	556	\$493,257
Delinquent but filed prior to study	59	3	62	19,909
Delinquent at time of study	<u>70</u>	<u>12</u>	<u>82</u>	<u>19,685</u>
Total	<u>673</u>	<u>27</u>	<u>700</u>	<u>\$532,851</u>

On the basis of the above data, the Director of the IRS Collection Division on January 28, 1972, advised us that the study, which had been based on tax year 1968 returns, indicated a highway use tax dollar-delinquency rate ranging from about 3.7 percent to 6.1 percent. He stated that the dollar



delinquency associated with these percentages ranged from about \$3.8 million to \$6.4 million for fiscal year 1968.

The Director of the Collection Division acknowledged that, for measuring precisely the tax delinquency, the study had limitations because extremely large businesses were not contacted during the study. Also, under the procedures for conducting the study, some other truck owners were not identified as businesses and therefore were not contacted. He explained that these conditions had been accepted by management because of resource limitations and because the purpose of the study was to achieve a relative estimate of the tax significance of delinquency for various taxes. He explained also that the study, in fact, did provide estimates needed for program development.

## CHAPTER 3

### UTILIZATION OF TRUCK REGISTRATION DATA

#### AVAILABLE FROM THE STATES

On March 9, 1971, IRS informed the Subcommittee that arrangements had been made with most States to provide IRS with information from State motor vehicle registration records. IRS also advised that the State data was cross-referenced against their files for the purpose of discovering potentially delinquent taxpayers and that when it appeared that a potential delinquency existed, the data was channeled to the field office having jurisdiction for further investigation. The inference of this statement is that, by using this procedure, IRS is enforcing the Federal highway use tax.

IRS stated, however, in its fiscal year 1972 budget submission to the Congress that, although truck registration data obtained from the States indicated widespread noncompliance, IRS had not been able to follow up on the State data because of lack of manpower.

We found that IRS enforcement of the Federal highway use tax had been scheduled formally in only nine of 58 IRS districts in each of fiscal years 1970 and 1971 and that enforcement in the remaining districts had been either unscheduled or nonexistent. Further, the limited results from the unscheduled work suggests that such work was not extensive.

Data obtained by GAO regarding State truck registration data and tax returns compliance programs is discussed in the following sections of this chapter.

#### TRUCK REGISTRATION DATA AVAILABLE FROM THE STATES

The various States register commercial vehicles on different bases, and much of the truck registration data is not compatible with the Federal taxable weight categories on IRS highway use tax returns. For example, many States record

truck registrations on the basis of gross weight and do not record axle data. Both axle data and empty weight data are required on the highway use tax return. Thus guidelines for interpreting available State data must be developed at the district office level. Despite this problem, IRS considers data provided by the States from their registration records to be the best data available for use in its returns compliance program.

In 1961 an IRS official addressed the 29th Annual Conference of the American Association of Motor Vehicle Administrators, Committee on Registration and Certificate of Title, to inform them of the importance to IRS of State registration data and the limitations on its usefulness. He stated that the cooperation of State motor vehicle registration personnel was a necessity in any highway use tax compliance program which IRS might initiate and, under optimum circumstances, it would be possible for IRS to secure almost complete compliance with the provisions of the highway use tax law. He stated also that, because of a lack of uniformity among the States in recording axles, weights, and types of vehicles, the State registration data in many instances did not readily lend itself to the success of IRS highway use tax compliance programs unless it was first processed to match IRS taxable weight categories.

To determine whether any of the States had truck registration data similar to that needed by IRS, we examined truck registration application formats maintained by FHWA of the 50 States and the District of Columbia. We found that only 17 States appeared to require the filing of such data by truck owners. We contacted registration officials in these States to ascertain whether the registration data was available and recorded in a format, such as a computer printout, that could be used by IRS to determine the truck owners' tax liability without first converting the data to IRS axle and weight categories and whether the data could be used for management purposes in estimating the potential revenue from the tax in any State.

We were advised by officials in 15 of the States that the complete data required could not be obtained from their registration records. Reasons cited were (1) records lacked axle data and/or empty weight data, (2) truck-trailer

combinations were not identified, and (3) data from motor vehicle registration records either were not automated or were only partially automated. The remaining two States advised us that the data was available from registration records but that a computer program would have to be developed to extract the data from the States' data banks.

#### ACTION TAKEN TO IDENTIFY DELINQUENT TAXPAYERS

Truck registration data is made available to IRS by all but one State and IRS can obtain registration data in that State from a commercial source. When such data is used by IRS, it is cross-referenced to IRS taxpayer information to identify nonfilers of highway use tax returns. This action is part of the IRS tax returns compliance program. In fiscal years 1970 and 1971, 47 and 45 IRS district offices, respectively, performed some returns compliance program work on the highway use tax which resulted in the collection of additional taxes of \$1,096,000 and \$1,538,000. The major part of this work was carried out by nine IRS district offices that formally scheduled returns compliance work on the highway use tax in each year.

The formal compliance program requires the cross-referencing of State registration data to the IRS files to discover potentially delinquent taxpayers and requires a subsequent follow-up to obtain the payment of any delinquent taxes. The returns compliance program work, both scheduled and unscheduled, is conducted by the IRS district offices on a manpower-available basis.

Information was not available at the IRS National Office regarding the number of man-days expended by each of the district offices for returns compliance work on the highway use tax. In its fiscal year 1972 budget estimate, however, IRS informed the Congress that, because of lack of manpower in recent years, its district offices had been unable to follow up on the State data through its returns compliance programs. In fact, some IRS districts have asked the States to defer providing registration data until manpower is available to follow up on it.

The following tabulation summarizes data on the results of IRS district offices' scheduled and unscheduled returns

compliance program work on the highway use tax in fiscal years 1970 and 1971.

	<u>District offices</u>	<u>Taxpayers contacted</u>	<u>Taxpayers delinquent</u>	<u>Returns secured</u>	<u>Amount collected</u>
Fiscal year 1970:					
Scheduled	9	6,103	2,801	6,919	\$ 905,000
Unscheduled:					
Taxpayer contacts (none)	11	-	-	-	-
Taxpayer contacts (10 or less)	25	104	91	181	29,000
Taxpayer contacts (over 10)	<u>13</u>	<u>911</u>	<u>760</u>	<u>1,341</u>	<u>162,000</u>
Total	<u>58</u>	<u>7,118</u>	<u>3,652</u>	<u>8,441</u>	<u>\$1,096,000</u>
Fiscal year 1971:					
Scheduled	9	6,751	3,879	11,046	\$1,343,000
Unscheduled:					
Taxpayer contacts (none)	13	-	-	-	-
Taxpayer contacts (10 or less)	22	86	74	151	24,000
Taxpayer contacts (over 10)	<u>14</u>	<u>1,064</u>	<u>685</u>	<u>1,388</u>	<u>171,000</u>
Total	<u>58</u>	<u>7,901</u>	<u>4,638</u>	<u>12,585</u>	<u>\$1,538,000</u>

As shown above, during fiscal years 1970 and 1971, 11 and 13 IRS district offices, respectively, did not perform any returns compliance program work and 25 and 22 district offices, respectively, contacted 10 or fewer taxpayers for returns compliance purposes.

Because our review of the returns compliance program work on the highway use tax was restricted to an analysis of summary data provided by IRS, we had no basis for ascertaining whether the collections obtained by the nine districts which conducted scheduled compliance programs during fiscal years 1970 and 1971 resulted from a partial or complete cross-referencing of State truck registration data against IRS records of truck owners who had filed highway use tax returns. Also we do not know whether the collection of \$905,000 and \$1,343,000 during fiscal years 1970 and 1971 by the nine district offices represents the total unpaid highway use taxes in those districts. The summary data provided by IRS on its returns compliance program indicated that on a national basis significant amounts of highway use taxes were not being collected.

## CHAPTER 4

### USE OF DECALS WOULD IMPROVE

#### COMPLIANCE WITH FEDERAL HIGHWAY USE TAX LAW

IRS has advised us that it cannot ascertain the number of truck owners who are liable for the highway use tax but who have not filed a return. The taxpayer compliance measurement program studies and returns compliance programs conducted by IRS, as discussed in chapters 2 and 3 of this report, however, indicate that a significant number of truck owners are not filing highway use tax returns. This noncompliance results in a significant loss of revenue to the Federal Government.

Because of the significant loss in tax revenue, we believe that IRS should strengthen enforcement of the highway use tax law by adopting a FHWA proposal that decals be placed on trucks for which the tax has been paid. FHWA advised us that, during the normal work activities of its safety investigators and with the cooperation of State employees, about 250,000 trucks and truck-tractors could be inspected annually for compliance with a highway use tax decal requirement.

In our opinion, a decal system would be more advantageous than the present method of converting State registration data into a form usable by IRS because the conversion is a cumbersome process and requires increased IRS manpower to carry it out on a national basis. In contrast, the enforcement of a decal system could be implemented as a part of the normal operating activities of FHWA.

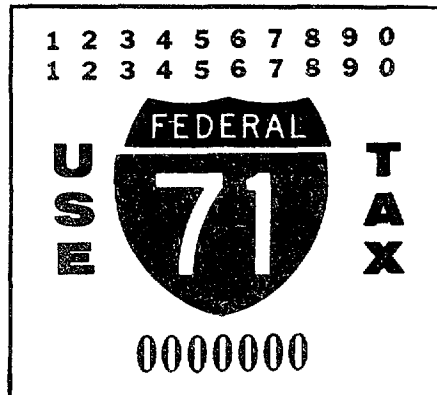
Because receipts from the highway use tax are used to assist in financing the Interstate Highway System, FHWA has on various occasions encouraged IRS to strengthen its enforcement of the highway use tax law. The Federal Highway Administrator, in a letter dated August 28, 1962, to the Deputy Assistant Secretary of the Treasury, set forth FHWA's views on the collection of the highway use tax. He stated that the most important obstacle in collecting the highway use tax was that IRS did not issue any evidence of tax payment to be displayed on or carried in the motor vehicle for

which the tax had been paid and that the absence of such evidence rendered effective enforcement of the highway use tax law nearly impossible. He stated also that the psychological impact of visual evidence of payment would, of itself, cause truck owners to comply with the law.

On October 10, 1962, the Deputy Assistant Secretary advised the Administrator that the Treasury Department was adverse to using tags or stickers and expressed the belief that enforcement funds would be better concentrated if used to check State registration records rather than to divert some of the funds toward instituting a stamp system. The decision not to use tags or stamps was based, primarily, on the following considerations.

- The trucking industry could not be expected to police itself; therefore, a tag or stamp system would require road policing by IRS to make the requirement fully effective as an aid to enforcement.
  
- The use of stamps would add approximately \$300,000 to IRS administrative costs.

FHWA officials met with IRS officials on July 2, 1969, to again discuss the use of a stamp or other evidence of payment to be placed on a vehicle for which the tax had been paid. At this meeting a decal made of reflective material, which had been designed by FHWA, was presented for IRS consideration. The decal, as shown below, consisted of two rows of numbers at the top, which would represent the weight of the truck, a medallion which would indicate the year for which the tax was paid, and a serial number at the bottom which would identify the truck owner.



On November 26, 1969, the Deputy Commissioner of IRS notified FHWA that the increased administrative costs--estimated at that time by IRS at about \$500,000--and the road policing, which would be required of IRS, would far outweigh the potential benefits of a stamp system.

The Secretary of Transportation on June 25, 1970, requested that the Secretary of the Treasury review the matter of employing a stamp or decal system as a means to enforce collection of the highway use tax. The Secretary referred to a road survey conducted by FHWA at safety checkpoints during the first quarter of calendar year 1970. He stated that the study indicated a strong possibility of tax revenue loss.

The Secretary of the Treasury, by letter dated July 17, 1970, advised the Secretary of Transportation that IRS had conducted similar reviews on the same proposal in recent years. He stated that he did not see any significant changes in the problems which confronted IRS if a stamp approach to the highway use tax had been instituted.

In view of FHWA's continuing interest in enforcement of the highway use tax law, we requested that FHWA provide us with an estimate of the number of trucks that their safety investigators could inspect for the presence of a decal in any given year. In a letter dated November 29, 1971, the Director of FHWA's Bureau of Motor Carrier Safety explained that FHWA's investigators (1) performed joint inspections and investigations with State employees under cooperative agreements with each of the 50 States, (2) made roadside inspections of motor vehicles, and (3) made on-premises inspections of motor carriers' facilities and equipment. He stated that, through FHWA's normal work activities and through the cooperation of State employees, some 250,000 trucks and truck-tractors could be inspected annually for compliance with a highway use tax stamp requirement.

- - - -

In each session of the Congress since 1967, at least one bill has been introduced in the Congress to exempt certain farm vehicles from the highway use tax and to require that evidence of payment of such tax be shown on highway



motor vehicles subject to the tax. The current House bill 11209, which was introduced on October 13, 1971, would require stickers to be affixed to the windshields of those vehicles for which the tax had been paid. No action has been taken on this bill.

### CONCLUSION

The Internal Revenue Code provides that the highway use tax be collected by any reasonable device or method necessary to secure a complete and proper collection of the tax. On the basis of IRS estimates of uncollected highway use taxes ranging from \$3.8 million to \$6.4 million during fiscal year 1968 and indications that large numbers of truck owners liable for the highway use tax are not filing returns, it appears that a new method of enforcing collection is warranted.

The present method of reviewing State registration data records and converting the data into a form usable in its returns compliance work on the highway use tax is a cumbersome process, and, because of a lack of manpower, IRS has been unable to follow up adequately on the State data. Thus we believe that IRS should implement the decal system advocated by FHWA and should solicit its cooperation in identifying trucks on which the tax has not been paid.

The identification of trucks--for which the highway use tax has not been paid--during FHWA routine roadside safety investigations would eliminate any need for road policing by IRS. Also the increased administrative costs that would be incurred by IRS in implementing a decal system would be reduced by the cost savings that would result from a discontinuance of the cross-referencing of State registration data against IRS records of taxpayers who have filed highway use tax returns. In addition, we believe that the increased compliance that would result from the impact of a decal system on truck owners, as well as the enforcement effect of FHWA personnel reporting violators, would justify any additional administrative expenses that would be involved.

## CHAPTER 5

### AGENCY COMMENTS AND GAO EVALUATION

#### FEDERAL HIGHWAY ADMINISTRATION COMMENTS

On February 23, 1972, officials of FHWA advised us that they continued to be in favor of a decal system but that they did not advocate the decal system as the sole method of enforcing the Federal highway use tax law. Rather, they envisioned the decal system as a supplement to IRS's cross-referencing of State registration data.

#### INTERNAL REVENUE SERVICE COMMENTS

On February 24, 1972, the IRS Assistant Commissioner for Accounts, Compliance, and Taxpayer Services advised us that a decal system did have merit. In lieu of supporting a decal system at this time, however, he stated that, during fiscal year 1973, IRS was going to conduct an intensive highway use tax collection program utilizing State truck registration data. In carrying out the nationwide program, he advised us that the following actions would be taken.

- All States and the District of Columbia will be requested to furnish names and addresses of all truck registrants having vehicles falling in categories which are liable or likely to be liable for the highway use tax.
- Truck registration data will be obtained from commercial sources when it is not available from the States.
- The names of truck registrants will be screened against IRS files of highway use tax returns to identify potential filers.
- Service centers or district offices will send notices to potentially delinquent taxpayers.
- Unsatisfactory responses to the service center notices or district office notices will be referred to revenue officers for follow-up.

The Assistant Commissioner explained that these actions would identify the complete universe of truck owners during fiscal year 1973 and that subsequent effort would be devoted to ensuring that returns would be filed by new truck registrants.

The Assistant Commissioner explained also that manpower would be available for this work as a result of (1) a recent IRS reorganization and (2) increased manpower provided for in the fiscal year 1973 budget request. He estimated that, during fiscal year 1973, about 180 to 200 man-years would be devoted to the highway use tax returns compliance program. The Assistant Commissioner stated that, if the desired effect was not accomplished by these means, IRS would give serious consideration to implementing a decal system.

At our request the Director of the Collection Division on March 7, 1972, provided us with budgetary information on the anticipated increase in highway use tax revenues that would result from an intensive collection program. He advised us that the application of 180 direct man-years to a full-scale highway use tax compliance program would result in securing an estimated 75,000 to 126,000 returns having an assessed value of \$15.2 million to \$26.6 million.

The Director noted that these budgetary estimates were greater than the \$3.8 million to \$6.4 million indicated by the 1969 taxpayer compliance measurement program study. He indicated that the difference in estimates arose because the study was based on 1968 data and that the budgetary estimates were based on current returns compliance program data.

#### GENERAL ACCOUNTING OFFICE EVALUATION

IRS estimated that the cost of a decal system in 1969 would have been about \$500,000, whereas comparable costs for the returns compliance program as estimated by IRS in the fiscal year 1973 budget request would be about \$2.2 million. The use of decals to identify trucks for which the tax had been paid, to a large extent, would be self-policing. In contrast, the highway use tax returns compliance program will involve a time-consuming and cumbersome process of reviewing State registration data and converting the data into a form usable by IRS.

Therefore we remain of the opinion that the decal system offers the most economical and efficient means for continued enforcement of the Federal highway use tax.

Also we believe that the nationwide highway use tax returns compliance program outlined by the Assistant Commissioner may be an inefficient use of personnel when compared with collections that could be achieved through alternative uses of personnel.

In its fiscal year 1973 budget justifications, IRS is requesting the Congress to provide about \$5 million for 400 additional man-years to identify taxpayers who have never filed returns. IRS stated that, with these additional man-years, about 898,000 delinquent returns, having an assessed dollar value of \$423 million, would be secured.

If, as indicated by the Director of the Collection Division, 180 of the 400 man-years would be devoted to identifying delinquent taxpayers and to securing highway use tax returns having a maximum assessed dollar value of \$26.6 million, the remaining 220 man-years would be devoted to identifying other delinquent taxpayers and to securing returns having an assessed dollar value of about \$396.4 million. Therefore, on the basis of this data, we believe that the designation of personnel to carry out a highway use tax returns compliance program is an inefficient use of manpower which should be devoted to other work that will provide a better return to the Federal Government.

## CHAPTER 6

### SCOPE OF REVIEW

We reviewed the legislative history of the Highway Revenue Act of 1956, as amended, which authorized the highway use tax and pertinent IRS regulations, procedures, and practices in collecting the tax. We interviewed FHWA officials and reviewed FHWA records and correspondence pertaining to the highway use tax. We also contacted officials of Departments of Motor Vehicles in 17 States to determine the manner in which truck registration data is recorded and the availability of such data.

Because IRS denied us the right of access to its records on tax administration, our review of IRS highway use tax activities was restricted to an analysis of summary data provided by IRS.

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NINETY-SECOND CONGRESS  
**Congress of the United States**  
**House of Representatives**  
 LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE  
 OF THE  
 COMMITTEE ON GOVERNMENT OPERATIONS  
 RAYBURN HOUSE OFFICE BUILDING, ROOM 8349-A  
 WASHINGTON, D.C. 20515

June 28, 1971

BEST DOCUMENT AVAILABLE

The Honorable Elmer B. Staats  
 Comptroller General of the  
 United States  
 General Accounting Office  
 441 G Street, N. W.  
 Washington, D. C. 20548

Dear Mr. Comptroller General:

By letter dated March 9, 1971, the Internal Revenue Service responded to this Subcommittee's request for information on the manner in which the Federal Highway Use Tax is collected and the extent of noncompliance with provisions of the Internal Revenue Code under which the tax is imposed.

The Internal Revenue Service advised the Subcommittee that it had not conducted a nationwide compliance study in the highway use tax area but, based on an overall compliance study concluded in 1968, there was a potential 7.7 percent delinquency rate. The Subcommittee was also advised that most states provide information from their motor vehicle registration records which is cross-referenced against the Service's files. When this procedure reveals a potentially delinquent taxpayer, the Service advised that the information is channeled to the field office having jurisdiction for investigation.

From the Internal Revenue Service's response, it appears that current information is not available on the Service's effectiveness in collecting the highway use tax. It also appears that the response on cross-referencing of state motor vehicle information conflicts with budget justification information presented at recent House appropriation hearings. In its budget justification, the Service stated that information obtained from the states on truck registration indicated large numbers of truck owners, who are liable for the Federal Highway Use Tax, are not filing returns. The justifications further stated that, because of lack of manpower in recent years, the Service has not been able to follow-up on the state information.

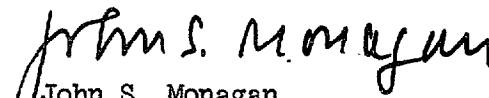
## APPENDIX I

In view of the questions raised as a result of the Service's response to the Subcommittee, we would like the General Accounting Office to undertake an independent review of the effectiveness of the Service's collection of the Federal Highway Use Tax. It would be particularly helpful if, on the basis of your review, you can provide information on:

1. The extent to which truck owners, who are liable for the tax, do not file returns and the significance of the corresponding unpaid tax.
2. The significance of the 7.7 percent delinquency rate cited by the Service and the basis for the figure.
3. Which states provide truck registration information for the Service's use and what actions are taken by the Service on the information, including verification procedures.
4. What action is taken by the Service to identify truck owners who are liable for the tax in those states where truck registration information is not provided by the states.

While the Subcommittee is particularly interested in obtaining the information enumerated above, the review need not be limited to those points. We would appreciate receiving any additional information concerning the administration of the Federal Highway Use Tax you believe would be helpful.

Sincerely yours,

  
John S. Monagan  
Chairman

JSM:ic

**Internal Revenue Service**

Washington, D.C. 20224

Date

In reply refer to



Honorable Dante B. Fascell,  
Chairman  
Legal and Monetary Affairs Sub-  
committee  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

Commissioner Thrower has asked me to reply to your letter of January 25, 1971, relating to the Federal Highway Use Tax.

As you know, the Federal Use Tax on Highway Motor Vehicles is imposed on the use of any public highway by certain trucks, tractor trailer or truck tractor combinations and buses. The tax is due from the person in whose name these vehicles are registered or required to be registered.

The tax period begins on July 1 and ends the following June 30. The tax due must be paid with the return, Form 2290, Federal Use Tax Return on Highway Motor Vehicles, a copy of which is enclosed, unless the taxpayer elects to pay his tax in installments. The taxpayer may elect on his return, to pay the tax in up to four equal installments, depending upon when the first use of the vehicle occurs in the tax period. Should an installment payment not be paid on or before the date prescribed for payment, the entire unpaid tax becomes due and payable.

Liability for the tax is incurred with the first taxable use of a vehicle in the tax period, and the tax for the entire period must be paid. The tax is, of course, prorated for vehicles which are first used after the first month of the tax year. The tax return is due on August 31



## APPENDIX II

Honorable Dante B. Fascell

for vehicles first used in the month of July. If a vehicle is put into use after the month of July, a return must be filed by the last day of the month following the month the vehicle was first used in the tax year.

Although the Service has not conducted a nationwide compliance study in the Highway Use Tax area, we concluded from our 1968 Taxpayer Compliance Measurement Program that there was a potential 7.7% dollar delinquency rate at that time. We felt that this was largely due to the fact that taxpayers were not familiar with the Federal Highway Use Tax law and their responsibility to file returns. Accordingly, we expanded our emphasis on informing these taxpayers of the law and their obligations. These efforts consisted of radio and television spot announcements, news releases and dissemination of printed material through our district offices, motor vehicle dealers and state licensing authorities. We are of the opinion that these efforts, coupled with the publicity which accompanied the June 2, 1969 revision of the Use Tax Schedule, have had a desirable effect on increasing compliance with the law.

The Internal Revenue Service also recognizes and is concerned that a possible revenue loss exists for reasons other than ignorance of the law. Accordingly, we constantly strive to improve our nationwide compliance techniques within the framework of existing Federal Tax laws. We recently improved processing of Federal Highway Use Tax returns through use of our automatic data processing system. Under the data processing system, we are capable of establishing a taxpayer entity on a master file. Our present procedures provide for a computer comparison of filed returns against the established taxpayer entities within eight weeks following the due date of the return. Computer notices are sent to the taxpayer entities showing no return filed. These entities later become the subjects of delinquency investigations and are assigned to our field offices if satisfactory replies to the computer notices are not received.

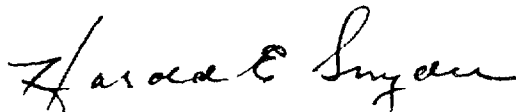
Honorable Dante B. Fascell

In addition to the Delinquency Check Program we have described, the Service enforces the Highway Use Tax law through Returns Compliance Programs. Under the Returns Compliance Programs, we have arranged with most states to provide the Service with information from state motor vehicle registration records. This information is cross-referenced against our files for the purpose of discovering potential delinquent taxpayers. When it appears that a potential delinquency exists, the information is channeled to the field office having jurisdiction for further investigation.

The Service does not issue stamps or other visible evidence of compliance with the Federal Highway Use Tax law, although we have, on several occasions, studied proposals advocating such procedures. We have concluded from these studies that any advantage to be gained by using such procedures would be heavily outweighed by the attendant administrative and procedural difficulties.

We appreciate the opportunity to comment on this subject. If I may be of further assistance, please let me know.

Sincerely yours,



Director, Collection Division

Enclosure

APPENDIX III

Form **2290**  
(Rev. Feb. 1971)  
Department of the Treasury  
Internal Revenue Service

**Federal Use Tax Return on Highway Motor Vehicles**

For the Taxable Year July 1, 1971 Through June 30, 1972

Please Type or Print Unless Labeled	Name	Employer Identification Number
	Address (Number and street)	
	City or town, State and ZIP code	

1. File a separate Form 2290 for EACH MONTH in which a vehicle is FIRST USED IN THIS YEAR. This return covers vehicles FIRST USED IN THE MONTH OF ..... 19..... 2. Have you filed a Form 2290 for any other month of this taxable year? . . .  Yes  No. 3. Are all vehicles registered in the State indicated in the address on this return? . . .  Yes  No. If answer is "No," attach a statement showing where such vehicles are registered.

Category	Type of Vehicle <small>If your vehicle falls within one of the categories shown below, you are required to file this return. The tax in column (1) is based on the "taxable gross weight." (See definitions and instructions on reverse.)</small>	Annual rate for vehicles used any time during July (1)	Rate of tax if first used after July (See table on page 4) (2)	Number of vehicles (3)	Amount of tax (Col. (1) or (2) times Col. (3)) (4)
Single Units	A 2 axled truck equipped for use as a single unit with actual unloaded weight of 13,000 pounds or more	\$81.00			
	B 3 axled truck equipped for use as a single unit with actual unloaded weight of 13,000 pounds or more and less than 16,000 pounds	90.00			
	C 3 axled truck equipped for use as a single unit with actual unloaded weight of 16,000 pounds or more	120.00			
	D 4 axled truck equipped for use as a single unit with actual unloaded weight of less than 22,000 pounds	165.00			
	E 4 axled truck equipped for use as a single unit with actual unloaded weight of 22,000 pounds or more and less than 30,000 pounds	204.00			
	F 4 axled truck equipped for use as a single unit with actual unloaded weight of 30,000 pounds or more	240.00			
	G More than 4 axled truck equipped for use as a single unit (see instructions)				
Tractor-trailer Combinations	H 2 axled truck-tractor with actual unloaded weight of 5,500 pounds or more and less than 7,000 pounds	90.00			
	I 2 axled truck-tractor with actual unloaded weight of 7,000 pounds or more and less than 9,500 pounds	120.00			
	J 2 axled truck-tractor with actual unloaded weight of 9,500 pounds or more and less than 11,000 pounds	150.00			
	K 2 axled truck-tractor with actual unloaded weight of 11,000 pounds or more	180.00			
	L 3 or 4 axled truck-tractor with actual unloaded weight of less than 13,000 pounds	195.00			
	M 3 or 4 axled truck-tractor with actual unloaded weight of 13,000 pounds or more and less than 17,000 pounds	210.00			
	N 3 or 4 axled truck-tractor with actual unloaded weight of 17,000 pounds or more	222.00			
O More than 4 axled truck-tractor (see instructions)					
Truck-trailer Combinations	P 2 axled truck with actual unloaded weight of 9,000 pounds or more and less than 12,000 pounds and equipped for use in combinations	120.00			
	Q 2 axled truck with actual unloaded weight of 12,000 pounds or more and equipped for use in combinations	165.00			
	R 3 or 4 axled truck with actual unloaded weight of less than 14,000 pounds and equipped for use in combinations	195.00			
	S 3 or 4 axled truck with actual unloaded weight of 14,000 pounds or more and less than 19,000 pounds and equipped for use in combinations	222.00			
	T 3 or 4 axled truck with actual unloaded weight of 19,000 pounds or more and equipped for use in combinations	223.00			
	U More than 4 axled truck equipped for use in combinations (see instructions)				
Buses	V Tax applies to a bus having a taxable gross weight of more than 26,000 pounds. Taxable gross weight is actual unloaded weight plus 150 pounds for each unit of seating capacity provided for passengers and driver. Attach schedule showing computation of tax.	\$3.00 per 1000 lbs. or fraction thereof			

4. Total amount of tax on vehicles put in use this month. This amount is payable with the return if the installment privilege is not elected or if the return covers vehicles first used in April, May or June . . . . .

5. Amount due if installment privilege is elected:  
If the return covers vehicles first used in { July, August or September, enter 1/4 of line 4  
October, November or December, enter 1/4 of line 4  
January, February or March, enter 1/4 of line 4 } . . . . .

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature \_\_\_\_\_ Title (Owner, etc.) \_\_\_\_\_ Date \_\_\_\_\_

**Instructions**

The law imposes a tax each year on the use of any highway motor vehicle which falls within one of the categories shown in the tax computation schedule on the face of this form. Under this law a return on Form 2290 covering all taxable vehicles in use during July of each year must be filed and an annual tax (or an installment of such tax) paid not later than the last day of August. The tax is for the 12-month period which will end the following June 30. For vehicles put in use in any month after the month of July, an additional Form 2290 must be filed, for these vehicles only, and a prorated tax paid for the number of months remaining in the 12-month period.

This applies even though the vehicles are replacements of vehicles upon which a tax has been paid, unless the replacement is a used vehicle on which the tax has been paid for the taxable year.

**Who must file.**—A return must be filed by the person in whose name any highway motor vehicle is or is required to be registered under the laws of any State of the United States, or of the District of Columbia, at the time of the first taxable use of the vehicle in the tax year.

**Note.**—If such person does not pay the tax, any person who subsequently acquires the vehicle and puts it to a taxable use in the same tax year may be required to pay the tax.

**When to file.**—The return is due on or before the last day of the month following the month in which the first taxable use, in the tax year, of a vehicle occurs. For example the tax on vehicles in use in July should be reported in the return filed in August. If a vehicle is put into use after the month of July, an additional return must be filed in the month following the month the vehicle was first used in the tax year.

**Where to File**

If your principal place of business, office or agency, is located in any of the following States.

Use this mailing address

Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	Internal Revenue Service Center 310 Lowell Street Andover, Mass. 01812
Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia	Internal Revenue Service Center 11601 Roosevelt Boulevard Philadelphia, Pa. 19155
Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee	Internal Revenue Service Center 4800 Buford Highway Chamblee, Ga. 30005
Indiana, Kentucky, Michigan, Ohio, West Virginia	Internal Revenue Service Center Cincinnati, Ohio 45298
Illinois, Iowa, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Wisconsin	Internal Revenue Service Center 2305 E. Bannister Road Kansas City, Mo. 64170
Arkansas, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas, Wyoming	Internal Revenue Service Center 3651 Interregional Highway Austin, Texas 78740
Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington	Internal Revenue Service Center 1160 West 1200 South Street Ogden, Utah 84405

If the taxpayer has no legal residence or principal place of business or principal office or agency, in any Internal Revenue district, the return should be filed with the Internal Revenue Service Center, 11601 Roosevelt Boulevard, Philadelphia, Pa. 19155.

**When to pay.**—The entire tax shown to be due on any return must be paid with the return, unless the installment privilege, described below, is elected. Make check or money order payable to "Internal Revenue Service."

**Installment privilege.**—You may elect to pay the tax in up to four equal installments, depending upon when the first use of a vehicle occurs in the tax year. The tax on vehicles first used in July, August, or September may be paid in four installments. The tax on vehicles first used in October, November or December may be paid in three installments and the tax on vehicles first used in January, February or March may be paid in two installments. The installment privilege is not available for the tax on vehicles first used in April, May or June.

**Installment payments.**—The first installment of tax must be paid at the same time the return is required to be filed. The other installment dates are December 31, March 31 and June 30, depending upon the calendar quarter in which the liability was incurred. You should receive a notice of each installment before it comes due. Payment should be submitted with this notice. Should an installment not be paid on or before the date prescribed for payment, the entire unpaid tax becomes due and payable.

**Notes.**—Liability is incurred with the first taxable use of a vehicle in the tax year. Should the installment privilege be elected and the vehicle later be sold, the seller is still required to pay any remaining installments.

**Period covered (Tax Year).**—The tax year begins July 1, and ends the following June 30. The return covers the taxable use of each vehicle for a period beginning with the month in which the vehicle was first used in the tax year through the following June 30.

**Employer identification number.**—Enter your employer identification number. If you do not have such a number, one should be secured by filing Form SS-4 "Application for Employer Identification Number" with the Internal Revenue office where you are required to file Form 2290. Form SS-4 may be obtained from any District Director or any Social Security district office.

**No provision for refunding.**—The tax is incurred with the first taxable use of a vehicle in the tax year. Should the vehicle later be sold, destroyed or otherwise disposed of, no refund or credit may be allowed for the remaining months in the tax year.

**Exemptions.**—The United States, a State or any political subdivision of a State is exempt from the tax.

Transit-type buses meeting certain conditions may also be exempt.

For detailed information in these cases see Section 4483 of the Internal Revenue Code and the regulations thereunder.

**Penalties and interest.**—Avoid penalties and interest by making timely returns and payments of tax. The law provides penalties for failing to file a return, for late filing, for filing a false or fraudulent return and for failure to pay tax when due.

**Definitions**

**Taxable use.**—Taxable use occurs when a highway motor vehicle is operated with power derived from its own motor on any roadway in the United States which is not a private roadway.

**Highway motor vehicle.**—The term "highway motor vehicle" means any vehicle which is propelled by its own motor and which is of a type used for highway transportation. Thus the term does not include trailers and semi-trailers or any vehicle of a type not used for highway transportation such as a farm tractor, a road grader or a bulldozer.

**Taxable gross weight.**—Although it is the use of the highway motor vehicle which gives rise to the tax, the tax is based on the taxable gross weight of such vehicle. The taxable gross weight of a vehicle is established by regulations which assign a certain weight, as shown in the General Information section of these instructions, according to the category in which the vehicle is classified. Any highway motor vehicle which falls in one of the categories shown in the schedule shall be considered to have the taxable gross weight assigned to such category whether or not the vehicle (single unit or combination) is actually loaded to such weight. No tax is due on the use of any

vehicle which does not fall in one of the categories shown in the schedule.

**Actual unloaded weight.**—The term "actual unloaded weight" means the empty weight of the vehicle fully equipped for service, without payload or driver.

**Fully equipped for service.**—The term "fully equipped for service" includes body (whether or not designed and adapted primarily for transporting cargo, as for example, concrete mixers); all accessories; all equipment attached to or carried on the vehicle for use in connection with the movement of the vehicle by means of its own motor or for use in the maintenance of the vehicle; and a full complement of lubricants, fuel, and water. The term does not include equipment attached to or carried on the vehicle for use in handling, protecting, or preserving cargo, nor does the term include any special equipment (such as an air compressor, crane, specialized oil-field machinery, etc.) mounted on the vehicle for use on construction jobs, in oil-field operations, etc. See section 4482 of the Internal Revenue Code and the regulations thereunder for additional definitions and more detailed information.

APPENDIX III

Computation of Tax

The law provides that the tax be computed on a "taxable gross weight" which is established by regulations for each category of vehicle as follows:

Category	Pounds	Category	Pounds	Category	Pounds
A . . . . .	27,000	D and Q . . . . .	55,000	M . . . . .	70,000
B and H . . . . .	30,000	K . . . . .	60,000	N and S . . . . .	74,000
C, I and P . . . . .	40,000	L and R . . . . .	65,000	T . . . . .	76,000
J . . . . .	50,000	E . . . . .	68,000	F . . . . .	80,000

Category G . . . . . 2.5 times actual unloaded weight  
 Category O and U . . . . . 4.5 times actual unloaded weight

The tax for one vehicle used any time during July is shown in column (1) of the tax computation schedule on the face of this form. This tax is arrived at by multiplying the "taxable gross weight" assigned to the category of the vehicle by the tax rate of \$3.00 per thousand pounds. A Tax Rate Table is provided below which shows the tax per vehicle according to category for cases in which the use began in some month other than July.

COMPUTATION OF TAX FOR "MORE THAN 4-AXLED" VEHICLES

Vehicles first used in July.—Enter in column 1 for category G — 2½ times the actual unloaded weight multiplied by \$3.00 per thousand pounds. Enter in column 1 for categories O and U — 4½ times the actual unloaded weight multiplied by \$3.00 per thousand pounds.

Vehicles first used in a month other than July.—Enter in column 2 for category G — 2½ times the actual unloaded weight multiplied by the tax rate per thousand pounds for category V. Enter in column 2 for categories O and U — 4½ times the actual unloaded weight multiplied by the tax rate per thousand pounds for category V.

For more detailed information you may obtain Publication 349 from any Internal Revenue Service office.

**NOTE: Gross weights used for State registration and tag purposes must not be used to determine the Federal Tax Liability for any category of vehicle described on this form.**

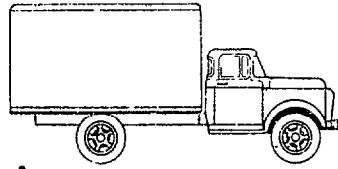
CATEGORY	Month Use Began											
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	
A . . . . .	\$74.25	\$67.50	\$60.75	\$54.00	\$47.25	\$40.50	\$33.75	\$27.00	\$20.25	\$13.50	\$6.75	
B and H . . . . .	82.50	75.00	67.50	60.00	52.50	45.00	37.50	30.00	22.50	15.00	7.50	
C, I and P . . . . .	110.00	100.00	90.00	80.00	70.00	60.00	50.00	40.00	30.00	20.00	10.00	
J . . . . .	137.50	125.00	112.50	100.00	87.50	75.00	62.50	50.00	37.50	25.00	12.50	
D and Q . . . . .	151.25	137.50	123.75	110.00	96.25	82.50	68.75	55.00	41.25	27.50	13.75	
K . . . . .	165.00	150.00	135.00	120.00	105.00	90.00	75.00	60.00	45.00	30.00	15.00	
L and R . . . . .	178.75	162.50	146.25	130.00	113.75	97.50	81.25	65.00	48.75	32.50	16.25	
F . . . . .	187.00	170.00	153.00	136.00	119.00	102.00	85.00	68.00	51.00	34.00	17.00	
M . . . . .	192.50	175.00	157.50	140.00	122.50	105.00	87.50	70.00	52.50	35.00	17.50	
N and S . . . . .	203.50	187.50	171.50	155.00	138.50	121.50	104.50	87.50	70.50	53.00	26.00	
T . . . . .	209.00	194.00	179.00	164.00	149.00	134.00	119.00	104.00	89.00	74.00	59.00	
G . . . . .	225.00	200.00	180.00	160.00	140.00	120.00	100.00	80.00	60.00	40.00	20.00	
O and U . . . . .	2.5 times actual unloaded weight multiplied by the rate per thousand pounds for category V below											
V—Tax rate per thousand pounds or fraction thereof . . . . .	\$ 3.00	\$ 2.50	\$ 2.25	\$ 2.00	\$ 1.75	\$ 1.50	\$ 1.25	\$ 1.00	\$ .75	\$ .50	\$ .25	

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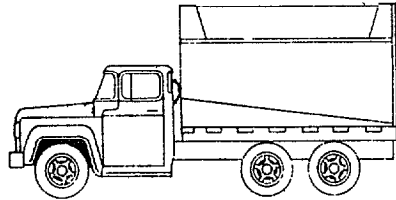
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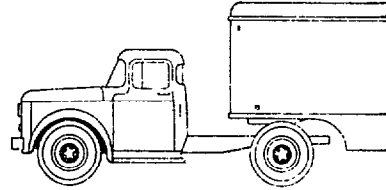
ILLUSTRATIONS OF THE TYPE OF VEHICLES SUBJECT  
TO THE FEDERAL HIGHWAY USE TAX



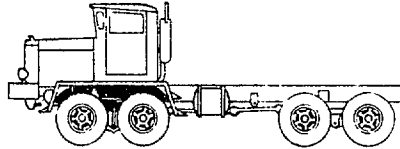
A



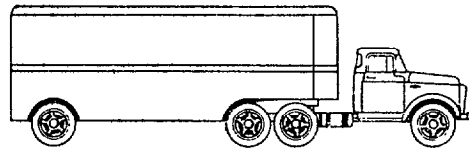
B, C



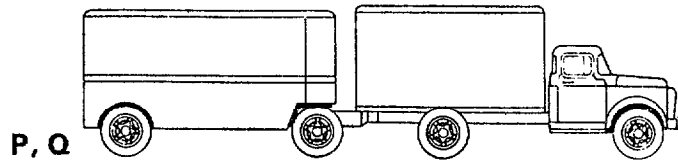
H, I, J, K



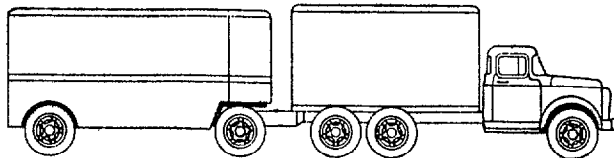
D, E, F



L, M, N



P, Q



R, S, T

Note: Letters appearing under above illustrations correspond to the tax categories shown on Federal Use Tax Return on Highway Motor Vehicles. (See app. III.)

Source: Internal Revenue Service Publication 349 entitled "Federal Use Tax on trucks, truck-tractors, and buses," dated May 1969.