

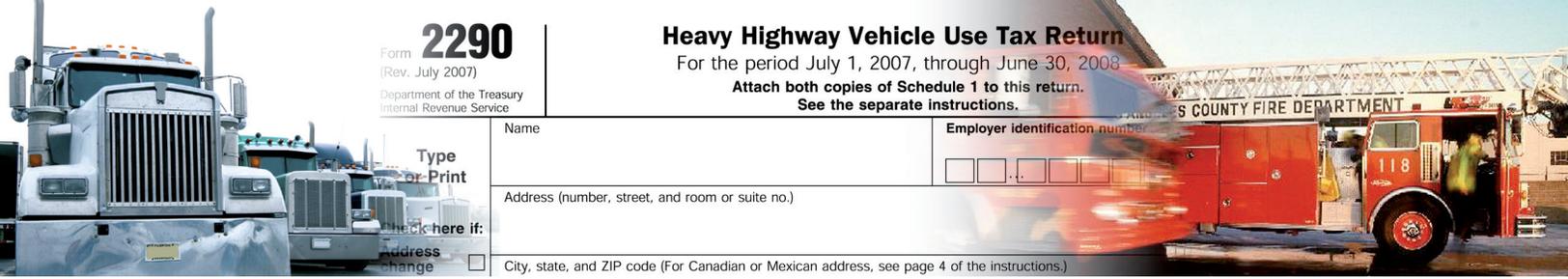


# The Heavy Vehicle Use Tax

Funding Our Nation's Highway Programs and Leveling the Playing Field



U.S. Department of Transportation  
Federal Highway Administration



**Form 2290**  
(Rev. July 2007)  
Department of the Treasury  
Internal Revenue Service

**Heavy Highway Vehicle Use Tax Return**  
For the period July 1, 2007, through June 30, 2008  
Attach both copies of Schedule 1 to this return.  
See the separate instructions.

Type or Print  
Name \_\_\_\_\_ Employer identification number \_\_\_\_\_  
Address (number, street, and room or suite no.) \_\_\_\_\_  
City, state, and ZIP code (For Canadian or Mexican address, see page 4 of the instructions.) \_\_\_\_\_

## What Is the Heavy Vehicle Use Tax?

### The Heavy Vehicle Use Tax and Who Pays It

The heavy vehicle use tax or HVUT is a fee assessed annually on heavy vehicles operating on public highways at registered gross weights equal to or exceeding 55,000 pounds. The gross taxable weight of a vehicle is determined by adding the unloaded weight of the motor vehicle and any trailers together with the maximum load customarily carried on-road by the truck-trailer combination. The maximum HVUT is \$550 per year.

Gross Taxable Weight	Heavy Vehicle Use Tax Rates
Below 55,000 lbs	No tax
55,000 – 75,000 lbs	\$100 plus \$22 per 1,000 pounds over 55,000 lbs
Over 75,000 lbs	\$550

### How It Is Paid

IRS Form 2290 is used when paying the HVUT. The Internal Revenue Service (IRS) is responsible for collecting the tax, so all payments are made to the IRS. Payments made in 2007 cover the period from July 1, 2007 to June 30, 2008. For new vehicles, IRS Form 2290 must be filed by the last day of the month following the month of first use.

Once the carrier has paid the tax, proof of payment must be submitted with their registration renewal to relevant state authorities. Proof of payment may generally be provided either in the form of a receipted and stamped Schedule 1 from IRS Form 2290 or a copy of a completed IRS Form 2290 with a front and back copy of the cancelled check used to make the payment.

For large carriers with 25 or more vehicles, electronic filing is accomplished using a credit card or other means of electronic payment. When presenting proof of payment, the taxpayer must have the original electronic receipt or a copy of the receipt and a credit card or other bank statement showing evidence of the transaction.

### Groups Exempted from the HVUT

There are a number of groups that receive exemptions from the HVUT, including:

- The Federal Government
- State or local governments, including the District of Columbia
- The American Red Cross
- Nonprofit volunteer fire departments, ambulance associations or rescue squads
- Indian tribal governments (for vehicles used in essential tribal government functions)
- Mass transportation authorities (under certain conditions)

### Vehicles Exempted from the HVUT

- Commercial vehicles traveling fewer than 5,000 miles annually
- Agriculture vehicles traveling fewer than 7,500 miles annually
- Vehicles not considered highway motor vehicles – e.g., mobile machinery for non-transportation functions, vehicles specifically designed for off-highway transportation, and non-transportation trailers and semi-trailers
- Qualified blood collector vehicles used by qualified blood collector organizations

Exempt carriers may be required to file tax forms with the IRS or notify the local department of motor vehicles of the exempt status being claimed.



## Why Is the HVUT Important?

### Federal HTF Faces Shortfall

The Federal Highway Trust Fund (HTF) finances the federal highway program through fuel and other highway-use taxes. The funds are invested in our nation's transportation infrastructure.

In 2008, Federal HTF receipts topped \$38.7 billion, with \$33.5 billion specifically dedicated to the HTF's Highway Account. As motor fuel prices have topped \$4 per gallon in the U.S., consumption of motor fuels, and consequently receipts from motor fuel taxes, have declined. In July 2008, the Office of Management and Budget (OMB) projected a \$3.1 billion shortfall in receipts into the Federal HTF's Highway Account for 2009.

Due to the way that highway funds are allocated, every \$1 of shortfall translates into a \$4 dollar drop in spending. If the shortfall is not addressed, federal highway aid to states would be slashed by approximately \$12 billion in 2009. The severity of the problem is apparent when noting that total federal highway aid to states was expected to be \$41 billion in 2009.

### Related Shortfall Costs Are High

As conditions of our roads and bridges continue to deteriorate, congestion will grow, the U.S. economy will lose billions in productivity, and fuel consumption will increase.

The Texas Transportation Institute through its Annual Urban Mobility study recently reported that, based on the costs associated with wasted time and fuel, congestion represented an annual \$78 billion drain on the U.S. economy. The TTI report also found that congestion resulted in 4.2 billion lost hours and 2.9 billion gallons of wasted fuel. On average, congestion results in 38 hours of additional travel time and 26 gallons of wasted fuel per traveler, costing motorists \$710 annually, up from \$680 in 2004.<sup>1</sup>

Substandard highway infrastructure also reduces roadway safety, increases vehicle maintenance costs, damages the environment due to pollution caused by vehicle emissions, expands energy consumption, and increases emergency response time.

### Highway Performance Costs

The Federal Highway Administration (FHWA) examines the condition and performance status of the nation's highways, bridges and mass transit systems periodically, and in its most recent study reported that:

- To keep average highway user costs from rising above 2004 levels, the average annual investment in our nation's roads would have to increase to \$78.8 billion, which is 12.2 percent above current investment levels of \$70.3 billion. This analysis does not include the long-term effects of inflation.
- To improve highway facilities to the point where any additional investment would no longer be cost beneficial, investment levels would need to grow to \$131.7 billion annually, or 87.4 percent above current levels. Once again, the effects of inflation are not factored into this analysis.<sup>2</sup>

### The Nation Benefits from Transportation Infrastructure Investments

Investment in our highway infrastructure helps:

- Save lives, time and money
- Reduce the number and severity of crashes for all kinds of vehicles
- Enhance the ability of the entire community of emergency responders
- Lower fuel and insurance costs
- Increase mobility
- Ease congestion
- Decrease energy consumption
- Boost air quality
- Improve the efficient movement of goods
- Raise business productivity
- Strengthen the nation's economic productivity

<sup>1</sup> Schrank, D and T. Lomax. *The 2007 Urban Mobility Report*, Report Prepared for the Texas Transportation Institute, College Station, TX, September 2007.

<sup>2</sup> Federal Highway Administration, *Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance*, Washington, DC, 2006.



## Why Is the HVUT Important?

### HVUT Helps Level the Playing Field

The need for road surface maintenance is greatly attributable to the heaviest vehicles. Based on the findings of the American Association of State Highway Officials (AASHO) road test, damage caused by heavy trucks was long thought to increase with approximately the fourth power of the axle load. This means that one axle of 10 tons on a heavy truck was 160,000 times more damaging to a road surface than an axle of 0.5 tons (car scale).

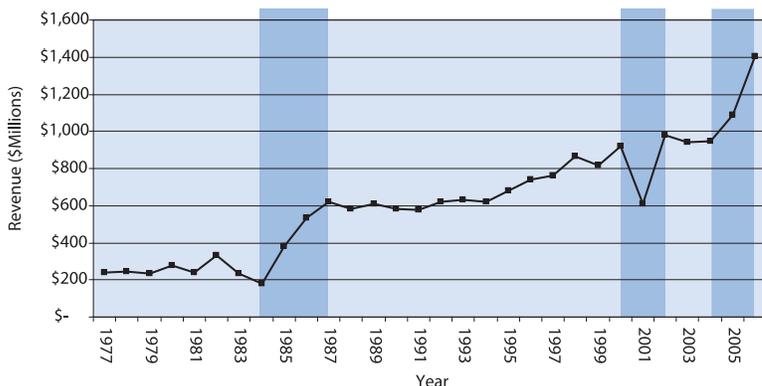
In recent years, however, it was determined that the relationship between axle weights and pavement damage is complex and varies based on numerous variables, including environmental factors, type of terrain and roadway design. The National Pavement Cost Model (NAPCOM), which is the pavement model currently used by FHWA, estimates that for some types of pavement deterioration, doubling the axle load causes 15 to 20 times as much damage; for other types of deterioration, doubling the load only doubles the damage.

The U.S. Department of Transportation in its most recent Highway Cost Allocation Study estimated that light single-unit trucks, operating at less than 25,000 pounds, pay 150 percent of their road costs while the heaviest tractor-trailer combination trucks, weighing over 100,000 pounds, pay only 50 percent of their road costs.<sup>3</sup>

The volume of truck freight has grown significantly over the past few decades. Between 1975 and 1995, domestic intercity tonnage carried by trucks grew 52 percent over a fairly static system of highways. Looking forward, the freight tonnage carried by trucks is expected to increase 50 percent between 2002 and 2035.<sup>4</sup>

The HVUT levels the playing field by ensuring that operators of heavy trucks pay a little more for the highway network relative to the motorists and light trucks who meet their responsibility through other forms of taxes (e.g., registration fees, motor fuel taxes) but do less damage to the system.

**Figure 1: Historic HVUT Revenue**



### HVUT Generates Billions for the HTF

The HVUT is a significant source of transportation funding in the U.S. In 2008 alone, the HVUT generated more than \$1.0 billion in Federal HTF revenue.

Figure 1 demonstrates historic collections associated with the HVUT. The figure highlights three time periods of interest: 1984-85, 2001 and 2006. In 2001, HVUT receipts slumped due to the sagging economy and its impact on the motor carrier industry. In recent years, the HVUT has rebounded due to economic growth and the incentive to pre-buy or purchase trucks prior to 2007 to avoid the new EPA emissions rule. In 2006, HVUT revenue represented approximately 4.2 percent of total revenue deposited in the Highway Account of the Federal HTF.<sup>5</sup>

Figure 1 also underscores the importance and potential payoff associated with strong enforcement. On July 1, 1984, HVUT rates were raised to their current levels. Not surprisingly, fiscal year (FY) 1985 HVUT revenues grew by nearly \$200 million. On October 1, 1985, states were required to verify proof of payment as a condition of registering heavy trucks subject to the HVUT. In the year following introduction of this enforcement measure, HVUT revenues grew by an additional \$154 million, representing an increase of nearly 41 percent.

<sup>3</sup> Federal Highway Administration, 1997 Federal Highway Cost Allocation Study, Washington, DC, 1997.

<sup>4</sup> Federal Highway Administration, *Freight Facts and Figures 2006*, Washington, DC, 2006.

<sup>5</sup> Federal Highway Administration, *Highway Statistics, Table FE-9, 1996-2006, Table FE-209, Federal Highway Statistics, Summary to 1995*. Washington, DC.



## Why Is the HVUT Important?

### HTF Protects Our Transportation Infrastructure

Federal highway funds are invested in our nation's transportation infrastructure. In 2007 alone, Federal HTF receipts topped \$39.9 billion, with \$34.9 billion dedicated to the HTF's Highway Account.

FHWA administers the Federal-aid highway program, which apportions highway funds to states based on formulas established in federal highway authorization acts. The most recent authorization act is the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which was signed into law on August 10, 2005.

SAFETEA-LU guarantees that each state's share of apportionments will equal 90.5 percent of its overall contribution to the HTF in 2005, with the minimum guarantee growing to 92 percent by 2008. Since the vast majority of all funds contributed by states to the Federal HTF are returned through highway fund apportionments, there is a direct incentive for state agencies to take necessary measures to enhance HVUT compliance.

### HTF Finances a Broad Spectrum of Transportation Investments

- Highway improvements (e.g., land acquisition and other right-of-way costs, preliminary and construction engineering, construction and reconstruction, resurfacing and restoration costs of roadways and bridges)
- Highway and bridge maintenance activities
- Highway and traffic system costs (e.g., traffic control and surveillance systems, snow and ice removal, erosion control, air quality programs)
- Highway law enforcement
- Safety programs (e.g., driver education and training, vehicle inspection programs, enforcement of vehicle size and weight limitations)
- Congestion relief projects
- Debt service
- Administrative costs (e.g., overhead, research, engineering)

### Highway Investment Drives Economic Growth

Recent studies conducted for FHWA demonstrate that highway investment has generated significant positive economic impacts for the nation, including those related to employment, income, productivity, production costs and private capital formation. A study prepared by Ishaq Nadiri and Theofanic Mamuneas found a strong link between highway investment and economic performance. Highlights of the report, which focuses on the 1950–1991 time period, include:

- U.S. industries realized average production cost savings of 29.4 cents for every dollar of highway investment
- Highway investment contributed 25 percent to annual productivity growth
- The average net rate of return on total highway capital investment is 32 percent annually<sup>6</sup>

The study demonstrates that highway investment continues to play a strong role in industry productivity growth, national economic performance and international competitiveness.

<sup>6</sup>Nadiri, I and T. Mamuneas, Contribution of Highway Capital to Output and Productivity Growth in the U.S. Economy and Industries, Report prepared for the Federal Highway Administration Office of Policy Development, Washington DC, August 1998.



## Who Is Responsible for Collecting and Administering the HVUT?

The code of federal regulations establishes a framework for HVUT enforcement in 23 CFR 669 and assigns responsibilities to multiple federal and state agencies.

### Internal Revenue Service

The IRS is responsible for HVUT collections and taxpayer audits.

### States

States are required to obtain proof of HVUT payments when registering heavy trucks subject to the tax. Further, 23 CFR 669.11 requires that the Governor of each state certify HVUT compliance prior to July 1 of each year. In so doing, the Governor or his or her designee must submit a letter with text prescribed in 23 CFR 669.9 and contained within Form FHWA-1563 certifying that the state is obtaining proof of payment as a condition of registering heavy trucks subject to the HVUT.

### Federal Highway Administration

The FHWA is required under 23 U.S.C. 669.21 to periodically review the state's procedures for complying with HVUT requirements. This review must include the inspection of registration records and other supporting documentation. Part 699 of the Federal-aid Policy Guide requires FHWA to conduct HVUT compliance reviews at least once every three years for each state in the nation. Responsibility for conducting these reviews falls to the division offices.

If a state fails one of the periodic compliance reviews, the Secretary of Transportation has the authority to withhold up to 25 percent of the state's Interstate Maintenance funds. A finding of non-compliance could, therefore, cost the state millions in lost highway funding. Thus, it is imperative that states take measures to ensure HVUT compliance.

### Fleet Owners



Fleet owners file electronic or paper copies of IRS Form 2290 and pay taxes.



IRS returns stamped Schedule 1.



### Fleet Owners



Registrant provides IRS Schedule 1 to register vehicle, State staff verifies it.

### State Department of Motor Vehicles





## Does the HVUT Suffer from Compliance Problems?

### Heavy Vehicle Use Tax Evasion

In spite of the best efforts of federal and state compliance officers, there are ongoing investigations that suggest HVUT evasion continues to be a problem. There are a number of HVUT evasion methods that have recently been detected in IRS audits and FHWA compliance reviews, including:

- Registering a vehicle at a weight lower than its actual gross taxable weight
- Registering as an exempt vehicle and using the vehicle for private or commercial purposes
- Falsely claiming annual use of less than 5,000 miles for commercial vehicles and 7,500 for vehicles used in agricultural operations
- Continuous re-titling of vehicles
- Bribing local and private agents checking for proof of payment when registering vehicles
- Failure to remit tax
- Falsifying or forging IRS Form 2290 or IRS stamp

To combat these methods, the IRS, FHWA, state and local agents must work collaboratively to identify and address HVUT evasion. A joint border inspection program conducted in Montana demonstrated the importance of interagency collaboration and in so doing, discovered that HVUT evasion by international carriers could be a problem. The investigation represented a cooperative effort between the State of Montana, the IRS, United States Customs, the Montana and Idaho National Guard, the United States Department of Transportation (US DOT) and Alberta Treasury.

Inspections of fuel loads, cargos, vehicle safety, driver logs, fuel use, licensing of vehicles and registration of vehicles were conducted at numerous Ports of Entry, including the Ports of Sweetgrass, Roosville, Del Bonita and Whitlash. Under the project, 1,188 commercial vehicles were inspected. Of those vehicles inspected, 512 (43 percent) were not in compliance with the Federal HVUT, 4 commercial vehicles (0.3 percent) were operating with dyed fuel in their supply tanks, and 26 (2.2 percent) were not in full compliance with IFTA and IRP regulations. During the operation, 36 fuel tankers were checked and 22 (61 percent) were guilty of dyed fuel violations, including improper invoicing or the mislabeling of the fuel. The border project yielded \$1.4 million in state and federal assessments, averaging \$86,609 per day.<sup>7</sup>

### Failure to Pay HVUT Is Costly

Penalties for HVUT non-compliance are costly. The penalty for failing to file IRS Form 2290 by August 30th is equal to 4.5 percent of total tax due, assessed on a monthly basis up to five months. Late filers not making an HVUT payment also face an additional monthly penalty equal to 0.5 percent of total tax due. Additional interest charges of 0.54 percent per month accrue as well.

Based on these rates, an HVUT liability that was originally \$550 will climb to over \$700 by the end of the five-month period of delinquency. In addition to these federal penalties, states suspend the registrations of vehicles for which proof of HVUT payment has not been provided.

### HVUT Evasion Increases Penalties

HVUT evasion penalties can be even more significant, resulting in fines and incarceration, as illustrated in one recent HVUT evasion case. In November 2001, an owner of a small trucking company was found guilty of HVUT evasion. The owner of the trucking company told the court he evaded the HVUT by periodically re-titling his heavy vehicles in Illinois. Specifically, he changed the names of ownership from himself to his company, and back again.

By continually changing the ownership name, for 11 years, he was able to avoid providing proof that he had paid the HVUT in order to register his trucks. The owner of the trucking company was sentenced to serve four months in prison and an additional four months of electronically monitored home confinement. He was also ordered to pay a \$2,000 fine.

<sup>7</sup> Balducci P., M. Weimar, S. Whitmore, E. Fathelrahman, L. Scovell, and D. Johnson. *Determining the Current Rates of Motor Fuel Tax Evasion for the State of Montana*, Report prepared for the Montana Department of Transportation, Helena, Montana, November 2006.



## What Can Be Done to Enhance HVUT Revenues?

### How is Congress Enhancing HVUT Enforcement?

In SAFETEA-LU, Congress took action to enhance HVUT enforcement through several provisions:

- Mandating that HVUT taxpayers with 25 or more vehicles file taxes electronically
- Repealing the option to pay HVUT on a quarterly basis
- Funding the development of an electronic system for the filing process

Another enforcement benefit of the electronic filing process—once the system becomes fully operational—is that it could store vehicle identification number (VIN) level information for later use by IRS agents conducting audits, state agents checking for proof of payment, and FHWA staff conducting compliance reviews.

### What Is FHWA Doing to Enhance HVUT Compliance?

There is a renewed commitment to the HVUT program at the national level. Federal and state agents are recognizing the importance of the program in light of current funding limitations and are taking the steps needed to enhance compliance. The FHWA has prepared several instructional tools that are collectively designed to enhance HVUT enforcement. In addition to this brochure, FHWA has recently developed:

- A tri-fold brochure highlighting the importance of HVUT tax compliance that can be distributed as an attachment to newsletters and registration renewal packets or posted at department of motor vehicle offices
- Training modules instructing FHWA division staff on how to prepare for compliance reviews, procedures for completing the reviews, flags that indicate non-compliance, types of evasion techniques and methods used to identify specific evasion techniques
- Improved guidelines for conducting HVUT compliance reviews

### What Can You Do to Enhance HVUT Compliance?

- State decision makers and managers can invest more resources and time in HVUT compliance
- State agents can request information on best practices in HVUT compliance, and obtain and review FHWA training material
- Professional and special interest associations can get the word out by attaching the tri-fold HVUT tax compliance brochure (available upon request) to member newsletters, or by directing members to the electronic brochure
- Motor carriers can take the time to understand the importance of the HVUT and ensure that it is always paid on time
- Everyone can help get the word out on the importance of HVUT compliance

### Who Should Care About HVUT?

- Every person that relies on the transportation network
- Highway users who seek improved safety and mobility
- First-responders and emergency medical providers who must travel rapidly and safely through traffic
- Insurance companies who seek to reduce claims for highway-related accidents
- People, especially employers and their employees, who are concerned about the high and rising costs of insurance and health care premiums
- Business owners who seek to maintain and improve business productivity
- Commercial vehicle operators and owners who will benefit from improved productivity, reduced fuel and insurance costs, and improved safety
- Legislators and other transportation decision makers who seek to provide a safe transportation system
- Organizations and industries dedicated to reducing traffic congestion, improving the nation's economic productivity, improving roadway safety, decreasing emergency response time, and reducing fuel consumption

### Please Join the Effort to Enhance HVUT Enforcement

#### For more information please contact:

Gloria Williams, FHWA  
(202) 366-5032 • [Gloria.Williams@dot.gov](mailto:Gloria.Williams@dot.gov)  
or

Ralph Erickson, FHWA  
(202) 366-9235 • [Ralph.Erickson@dot.gov](mailto:Ralph.Erickson@dot.gov)



U.S. Department of Transportation  
**Federal Highway Administration**