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Briefing

Towards a European Fuel Tax agreement: how to cut diesel tax competition by adopting US/Canada IFTA model for trucks

Summary

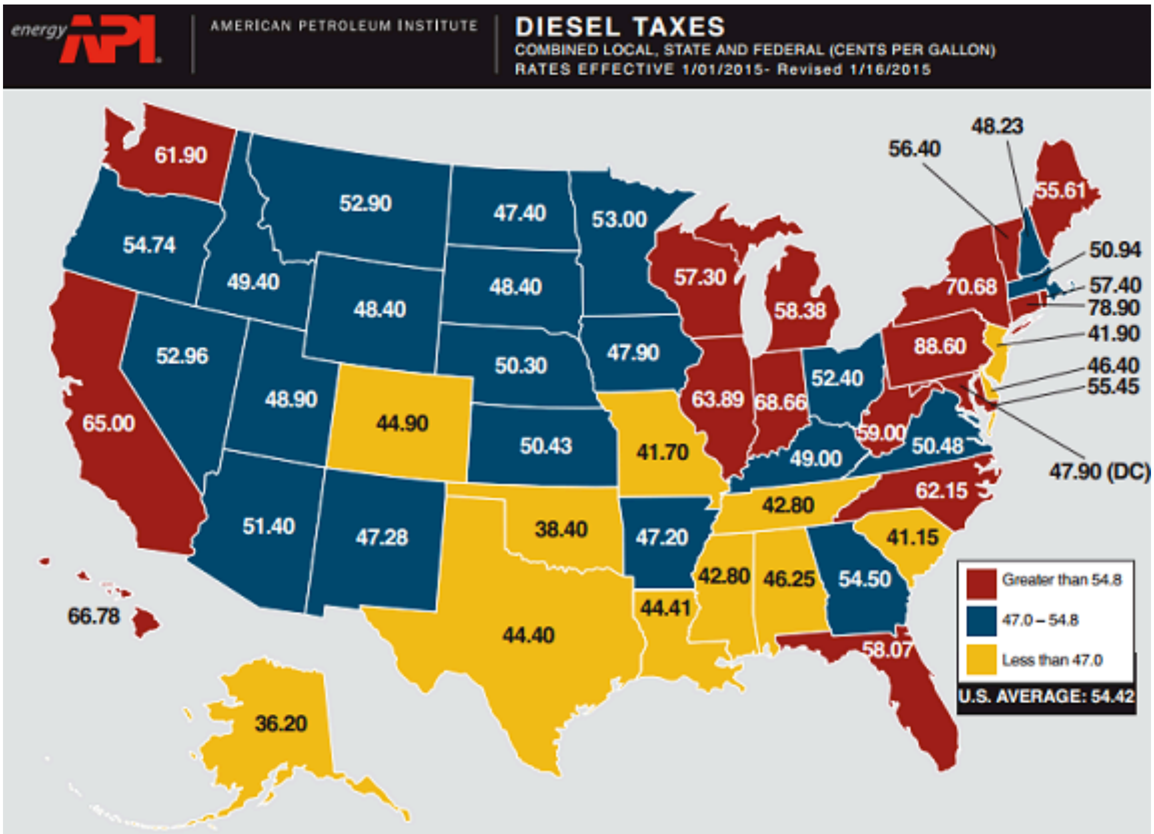
A fuel tax agreement operates in the US and Canada which is known as the International Fuel Tax Agreement, or IFTA. Under the IFTA, truck operators (hauliers) record distance travelled and fuel consumed within each state/province (jurisdiction). Tax paid where fuel is purchased is later reconciled against actual use. Thanks to this reconciliation process, hauliers obtain a rebate from some jurisdictions and pay additional taxes to others.

Significant differences in tax rates between neighbouring states/provinces are sustained under this system because the haulier ultimately pays tax at the rate where travel actually takes place. For example, Pennsylvania's fuel tax is approximately 46 cent per gallon higher than New Jersey's, but thanks to the IFTA, tax distortion ('fuel tourism') does not occur. This briefing outlines how the IFTA model could be enhanced and adopted for the EU.

Differences in diesel taxes in EU countries cause a number of problems. They distort the transport system and market competition without any rational foundation. Fuel tax competition is also a major obstacle to achieving the EU's climate commitments in a cost-effective way. Common EU action could solve this, but all decisions on common fuel taxation rules can only be taken with unanimity in the Council of the EU.

Relatively small member states can attract diesel tax revenues in a disproportionate way. Due to much lower diesel tax than in neighbouring countries, the sale of diesel per inhabitant is 5 to 8 times higher in Luxembourg than in Germany, Belgium and the Netherlands, resulting in fuel tax revenues 4 to 5 times per person higher in Luxembourg than in neighbouring countries. The freedom for member states to set their own fuel taxes in fact causes a race to the bottom, detrimental for both the European economy and for environmental policy.

An interesting way around these problems can be found in North America. In the US, fuel taxes are levied at both federal and state level. The same goes for Canada at the national and provincial levels. As a consequence, the fuel tax you pay when you fill your tank may differ quite significantly. The diesel tax in Pennsylvania is 88.60 cents per gallon, more than double neighbouring New Jersey at 41.90 cents. If these were two states in Europe, truck drivers would all fill their tanks in New Jersey, but thanks to the International Fuel Tax Agreement, which operates in North America, Pennsylvania can retain its higher tax rate without losing tax revenues to New Jersey.



The International Fuel Tax Agreement is an agreement between the 48 “contiguous” (mainland) US states and the 10 provinces of Canada.[1] The system was originally set up in the early 1980s by a few US states, but due to federal legislation adopted in the early 1990s, all states have joined. In the context of the agreement, the 48 states and the 10 provinces are labelled “jurisdictions”.

The model for the system is a similar, older programme – the International Registration Plan (IRP) – which was set up in the early 1970s to relieve hauliers of the very cumbersome bureaucracy that surrounded inter-state traffic where a vehicle had to be registered and pay taxes separately in every state. Through the IRP a number of federal, state and even local registration taxes (vehicle taxes, etc), are collected and split between the jurisdictions in relation to the distance driven within each jurisdiction. Since the 1940s it has been for each truck driver to record distance driven in each state.

The IFTA was introduced to solve similar problems surrounding fuel taxes. Fuel taxes can be charged on federal, state or local level but they are often earmarked for particular purposes. This goes not least for the federal taxes, which mainly are used to maintain the federal highway system. To handle the in-fighting around this money between the states, the federal authorities needed to know distances driven in each state, a need that also arose for the states.

To simplify this, a couple of states started to make more use of: a) the trucks’ logbooks, and b) the receipts from the sales of fuels, primarily diesel. On the basis of

[1] District of Columbia, Hawaii and Alaska and the so-called “territories” in Canada - Northwest Territories, Nunavut and Yukon are not part.

average fuel volume used and distance driven, the fuel used by a vehicle within a certain jurisdiction could be estimated which then could be used as the basis for taxing the fuel used.

This co-operation grew with more states joining, and finally federal legislation in effect made the IFTA mandatory. Though IFTA is basically not an authority but an independent not-for-profit organisation, US states are not allowed to set up a competing organisation with a similar purpose.

It works like this:

1. Every quarter (or month) a haulier compiles the following information for each vehicle covered by the scheme (all vehicles above 26,000 pounds, slightly below 12 tons),
   a) the driven distance in each jurisdiction during the period according to the logbook, and
   b) receipts on all fuel (usually diesel) bought for that vehicle during the period, split between each jurisdiction.

2. On the basis of this you get three figures:
   a) the average fuel consumed per mile per vehicle,
   b) the number of miles driven in each jurisdiction per vehicle, and
   c) the amount of fuel tax paid in each jurisdiction.

From this you can calculate the volume of fuel used in each jurisdiction and the fuel tax owed by the haulier to the jurisdiction or vice versa. The haulier only needs to declare and regulate through the home jurisdiction.

On the basis of all figures for all vehicles registered in each jurisdiction, money is transferred between the jurisdictions so that each jurisdiction (plus the federal government) gets tax revenues equivalent to the fuel used within its territory.

The important consequence of the system is that there is no reason – as there is in the EU – for a haulier to perform "diesel tourism" in order to lower fuel costs.

A vehicle that does not leave the home jurisdiction does not need to take part in the system. If a vehicle owner wants to make only a few trips outside the home jurisdiction they can buy single permits for that – the money goes to the non-home state they visit (this also goes for Mexican trucks that go north). As a safeguard, each jurisdiction is obliged to carefully audit at least 3 per cent of all vehicles very year. Another important rule is that any change in the fuel tax has to be notified to the rest of the IFTA states three months in advance.

An obvious weakness with the system is, of course, that the administration is very cumbersome. The high level of acceptance is explained by history – the bureaucracy was much worse before IFTA was introduced.[2]

IFTA is slowly moving into the digitalised world, but common use of GPS or anything like that still seems far away.

[2] Another consequence of the bureaucracy is that a new industry taking care of all the paperwork for hauliers has grown up; see, for instance, http://www.iftaplus.com/home.htm.

Nevertheless, the principle model seems to be extremely interesting for the EU. An EU version of IFTA would probably need no decisions on taxation levels as such, only some new technical and administrative requirements:

a) In many new trucks the vehicle computer can continuously register and record both the position of the vehicle and the fuel consumption (by tracking the flow from the tank to the engine). The hardware is installed as standard in most trucks while the necessary software can be downloaded separately by the haulier, usually as part of a larger "fleet management program".[3] This equipment delivers accurate figures on the fuel consumption by an individual vehicle during a certain period and should be made mandatory in new trucks sold in the EU.

b) A requirement on all member states to support each other in the recovery of tax revenues.[4]

Based on the fuel consumption of a vehicle within the territory of a member state during a specific period, the amount of tax revenues that shall be redistributed between the member states can be estimated as under the IFTA. Member states can maintain different diesel tax levels without running the risk of losing tax revenues and space for climate-policy motivated fuel tax rises. Below, we estimate on the basis that the vehicle is driven 10,000 km during a year in three different member states (in total 30,000 km) with strongly varying diesel tax rates.

Worked EU example:

	Member State I	**Member State II**	**Member State III**
Driven distance	10,000 km	10,000 km	10,000 km
Average fuel consumption	40 l/100 km	40 l/100 km	40 l/100 km
Fuel used	4,000 l	4,000 l	4,000 l
Fuel tax	*1 €/l*	*2 €/l*	*3 €/l*
Fuel tanked	7,000 l	3,000 l	2,000 l
Fuel tax paid	7,000 €	6,000 €	6,000 €
Tax on fuel used	4,000 €	8,000 €	12,000 €
Claim haulier/state	3,000 €	-2,000 €	-6,000 €

[3] See e.g. http://www.volvotrucks.com/trucks/uk-market/en-gb/services/dynafleet/pages/default.aspx , http://www.scania.com/products-services/services/fleet_management/ , http://www.fleet.vdo.com/vehicles/analyzing-vehicles/fuel-consumption-analysis-in-tis-web-tis-web-data-management-module/

[4] To the extent that this obligation is not already included in Council directive 2010/24/EU of 16 March 2010 concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures.

Further information

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