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Truck Fleets: Federal Excise Tax Review Opportunity—Heavy Vehicles Tax

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by Deborah Gordon and Taylor Cortright, Washington National Tax*

Companies may be overpaying federal excise tax on purchases and long-term leases of heavy vehicles such as highway trucks, trailers, or tractors. These companies often require customized vehicles that contain specialized jobsite equipment and other nontaxable articles for use in business operations. The supplier may include on the purchase invoice an amount equal to the excise tax calculated on the full sale price of the vehicle, without taking into account the allowable reductions under the federal excise tax rules. The burden of this tax is thus passed on to the purchaser, typically because the purchaser is unaware of the applicable rules that would reduce the seller's tax calculation.

Background

Federal excise tax ("FET") is imposed on the first retail sale of certain heavy vehicles, such as trucks, trailers, and highway tractors. Long-term leases are treated as first retail sales. These taxes fund the Highway Trust Fund, expenditures from which are generally used to repair and expand the federal highway system of the United States. Although the taxes fund an important government function, the tax rate is 12 percent of the sale price of the taxable article, which can be a significant item of cost.

Certain equipment installed on the vehicles, such as jobsite equipment, refrigeration units, and other items may not be taxable. The value of the nontaxable components is excludable from the tax base.

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* Deborah Gordon and Taylor Cortright lead KPMG's Federal Excise Tax practice. Deborah and Taylor previously worked in the Excise Tax Branch in the IRS Office of Associate Chief Counsel (Passthroughs and Special Industries).

Further, in some cases, a particular type of vehicle may be exempt from tax altogether. In addition, there are a number of statutory exclusions from the tax base. These exclusions include certain sales taxes and used components provided by the purchaser.

Companies purchasing heavy vehicles for use in business operations often work with truck manufacturers, dealers, or other suppliers to develop customized vehicles for business operations. The vehicle designs may contain specialized equipment and other articles that are excludable from the tax base. Because the person making the first retail sale is liable for the tax, the seller often has no incentive to take into account the allowable reductions and exclusions under the FET rules. Thus, the seller may calculate the FET on the entire sale price of the vehicle and pass along the burden of the tax to the purchaser on the invoice. Often the company is unaware of the rules and pays the invoiced amount without questioning the FET calculation. This issue may be amplified for companies that periodically replace or upgrade their heavy vehicle fleets due to wear and tear, to adjust to changing business needs, or to comply with environmental mandates. For vehicles that cost upwards of $100,000 each, the tax can be a significant item of cost for these companies.

Potential Opportunity

Companies should be mindful of the federal excise tax rules when purchasing new vehicles. They should make it a business practice to review the invoice from the dealer or truck manufacturer. A discussion should be held to specifically request that all allowable exclusions are taken into account in the FET calculation. In particular, items such as jobsite equipment or refrigeration units installed on the vehicles are not subject to tax and should not be included in the tax calculation. Moreover, the company should confirm the dealer has taken into account other applicable exclusions to properly calculate the FET.

In cases in which the sale has already occurred, companies that purchased heavy vehicles should make it a business practice to review recent purchase invoices. If tax was not properly calculated, companies can work with their supplier to obtain a supplier credit for the FET overpayment in a manner that benefits both parties. This is especially true in cases in which the customer has significant buying power or intends to purchase more vehicles in the future.

Observations

While the end-user purchaser of the heavy vehicle is not liable for the 12 percent federal excise tax, in standard industry practice it is typical for the seller to include on the purchase invoice an amount equal to the tax. Because the purchaser bears the economic burden of the tax, it is important to evaluate purchases of heavy vehicles to ensure the FET has been correctly calculated. When the supplier has imposed tax on nontaxable articles or made other computational errors, there is potential for a significant savings to the company, as well as refund claim opportunities for the supplier that works with its purchaser.

Industries potentially affected include:

- Power and utility companies
- Oil field servicing companies
- Grocery and food service companies
- Transportation and logistics companies
- Construction companies
- Other industries with large truck fleets