GAO Highlights

Highlights of GAO-16-682, a report to congressional committees

July 2016

INLAND WATERWAYS FUEL TAX

Additional Data Could Enhance IRS's Efforts to Ensure Taxpayer Compliance

Why GAO Did This Study

The inland waterways are a critical component of the nation's freight transportation system—moving over $230 billion of coal and other bulk commodities in 2014. Vessel operators that transport these products via barge pay a $0.29 per-gallon fuel excise tax, which provides partial funding for new construction and major rehabilitation of navigation infrastructure, such as locks and dams, on the waterways. From 2005 through 2014, the fuel tax generated about $83 million per year. Any non-compliance, such as not filing or under-reporting the tax, would reduce available funding.

The Water Resources Reform and Development Act of 2014 included a provision for GAO to evaluate the efficiency of collecting the fuel tax and assess alternative collection methods. This report describes: (1) the results of IRS's efforts to ensure compliance from 2005–2014; (2) challenges IRS and inland waterways operators report in determining taxes owed; and (3) alternative methods of collecting the fuel tax under existing law, and their advantages and disadvantages. GAO analyzed IRS audit data from 2005–2014, the most recent available data; reviewed relevant tax policy papers and reports; and interviewed Corps, IRS, and Treasury officials, as well as a non-generalizable sample of 10 vessel operators to obtain perspectives on fuel tax compliance.

What GAO Recommends

IRS should consult with the Corps to explore options to obtain relevant proprietary data to enhance IRS's efforts to ensure compliance with the inland waterways fuel tax. IRS agreed with the recommendation.

View GAO-16-682. For more information, contact Rebecca Shea at (202) 512-2834 or SheaR@gao.gov.

What GAO Found

Based on results of audits, the Internal Revenue Service (IRS) views vessel operators to be substantially in compliance with requirements to report and pay the Inland Waterways Fuel Tax (fuel tax). IRS seeks to ensure compliance by auditing quarterly excise-tax returns filed by these operators, as well as identifying operators that failed to file (nonfilers).

- **Audits of filed returns**: IRS data show that IRS generally audited a higher percentage of fuel tax returns compared to all excise-tax returns from 2005 through 2014. Moreover, the percentage of tax returns examined that IRS accepted as filed exceeded 50 percent in 8 of the 10 years. According to IRS officials, this figure is a relatively high percentage of tax returns examined with no change, which suggests that vessel operators are generally properly reporting their fuel taxes. Where IRS determined additional taxes were owed, the average amount assessed per audit for each year varied, ranging from $194 to $7,192.
- **Non-filer audits**: In 2010, IRS began an effort to identify potential nonfilers and increase the number of non-filer audits. To identify nonfilers, IRS obtains vessel operator information published by the U.S. Army Corps of Engineers (Corps) and compares that information with tax filings. The average amount assessed per non-filer audit for each year from 2005 to 2014 varied, ranging from $592 to $12,550.

IRS and vessel operators face some challenges determining fuel taxes owed because, for example, only fuel used for propulsion purposes is taxed. Vessel operators may overstate or understate the gallons of fuel claimed for non-propulsion purposes, especially when the fuel is drawn from the same tank as the vessel's propulsion engines. The IRS also does not have access to proprietary Corps data, such as vessel identification and route data that may be useful in evaluating whether taxpayers are under-reporting their fuel taxes. According to federal internal control standards, management should design the agency's information system (i.e., the people, processes, data, and technology) and related control activities, such as audits, to achieve objectives and respond to risk. Even though IRS is using the Corps' public waterborne commerce and lock performance data, obtaining the proprietary data could help enhance IRS efforts to ensure compliance and potentially increase fuel tax revenues for navigation-infrastructure construction projects.

GAO identified a potential alternative collection method. Taxing the fuel at the wholesale or vendor level effectively removes the operators' tax-filing burden. This method could increase compliance, according to Department of the Treasury officials, as there would likely be fewer taxpayers responsible for reporting the fuel tax, but there could be increased administrative costs for operators seeking to file refunds for taxes paid on fuel used on nontaxable waterways or for non-propulsion purposes. Fuel-monitoring systems and Global Positioning System-enabled software could facilitate accurate fuel consumption readings and thus tax reporting under the current system, but according to vessel operators, the cost to equip vessels, such as towboats and tugboats, may be high, especially for smaller operators.