**Interstate Tax Coordination: Lessons from the International Fuel Tax Agreement**

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**INTRODUCTION**

As regional economies have become more interconnected, the administration of tax revenue systems has become increasingly complex, motivating states to consider tax coordination efforts through a variety of arrangements to improve tax administration and enforcement. A tax coordination agreement permits the participating states to engage in specified collection or enforcement activities associated with a tax on behalf of another jurisdiction.

A growing concern over lost sales tax revenue on remote sales transacted through the Internet has motivated many states to explore cooperative tax agreements for sales and use taxes. With the support of the National Governors Association (NGA) and the National Conference of State Legislatures (NCSL), an ambitious and controversial project known as the streamlined sales tax project (SSTP) has emerged to propose principles for sales tax coordination. While SSTP is currently center stage in tax cooperative agreements, another cooperative agreement, the International Fuel Tax Agreement (IFTA), was initiated over 20 years ago. The agreement has evolved significantly through the years and currently the 48 contiguous U.S. states and 10 Canadian provinces have signed the agreement. The purpose of this paper is to describe the history, background, and incentives that have led to IFTA’s success. We show how the combination of improved tax administration and lower transaction costs play a critical role in the success of IFTA. Last, we identify lessons from IFTA that have relevance for other tax coordination agreements.

**BACKGROUND**

While fuel taxes are technically excise taxes, they have historically been viewed as a user fee and most states have dedicated fuel tax revenue for transportation purposes. Motor fuel taxes were levied first in the states as early as 1919. A federal fuel tax of 1-cent–per–gallon was first adopted in 1933. In 1956 the importance of the federal fuel tax increased with the establishment of the Highway Trust Fund and the intensive investment in the interstate highway network that followed. The current federal fuel tax rate is 18.4 cents per gallon for...
gasoline and 24.4 cents per gallon for diesel fuel. State fuel taxes range from a low of 7.5 cents per gallon in Georgia to a high of 31.0 cents per gallon in Rhode Island. More than half of the states (27) impose different rates based on the type of motor fuels (gasoline, diesel, and gasohol). Most of these states with rate differentials tax diesel fuel at a higher rate. A few states levy a reduced tax rate on gasohol (FTA, 2005). A small number of states further allow local governments to impose a local–option fuel tax (e.g., Nevada).

While fuel taxes produce a relatively small proportion of total state revenues, the tax funds a significant portion of transportation expenditures. Historically, fuel taxes have been somewhat complicated to administer and collect. For simplicity, states have allowed individual motorists to pay the fuel tax at the pump and not worry about the miles driven in a particular jurisdiction. On the other hand, states have attempted to enforce the fuel tax on large motor carriers based on some apportionment of miles driven in a state. Since highways are critical to the trucking industry, the industry has generally been willing to cooperate. However, over time the complexities of the system have increased as states employed different tax systems with different rates and definitions of taxable fuel transactions. For example, prior to IFTA, a single route from Denver to Los Angeles would require the carrier to file tax forms in five different states or to obtain permits from those five states. Furthermore, the carrier could be potentially audited for compliance by each of the five states.

The complexity of the fuel tax system motivated a few states to experiment with the coordination of fuel tax collection. In 1983, the International Fuel Tax Agreement was initiated by three states (Arizona, Iowa and Washington). This early cooperative effort was designed to assist in the reporting and payment of fuel taxes. In 1984, Congress supported the formation of the National Governors Association’s (NGA) Working Group on State Motor Carrier Procedures. The working group proposed a “Model Base State Fuel Use Tax Reporting Agreement” that was based on the early IFTA agreement and the Regional Fuel Tax Agreement among northeastern states. In 1987, six states adopted the NGA model. By 1990, 16 states had joined IFTA, setting the stage for the next phase.

In 1991, President George H. W. Bush signed the Intermodal Surface Transportation Efficiency Act (commonly known as ISTEA). Title IV of ISTEA acknowledged state agreements for commercial vehicle registration and fuel tax reporting. ISTEA authorized the Federal Highway Administration to fund a working group to assist with the International Registration Plan (IRP) and IFTA. Additionally, and perhaps most critically, ISTEA provided a significant incentive to encourage states to participate in IFTA. “[A]fter September 20, 1996, no State shall establish, maintain, or enforce any law or regulation which has fuel use tax reporting requirements (including tax reporting forms) which are not in conformity with the International Fuel Tax Agreement” (ISTEA section 4008(g)(1)). States were also told that they could not “establish, maintain, or enforce any law or regulation which provides for the payment of a fuel use tax unless such law or regulation is in conformity with the International Fuel Tax Agreement” (ISTEA section 4008 (g)(2)).

The federal legislation occurred in part because motor carriers believed that compliance with existing state laws was both difficult and burdensome. These laws required motor carriers to report their fuel use tax liability to each state in which they

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1 IRP was initiated in 1974 to facilitate and coordinate reciprocal recognition of commercial vehicle registration.
operated. Both large and small carriers filed forms in multiple states and each form often required different information. A key component of the IFTA model is to allow carriers to designate a base reporting state. The carrier then reports to the base state all fuel tax liabilities (both in the base state and in any other state where they operated). The base state collects the net tax liability from the carrier. The base state then compares state tax collections with tax assessments and transfers funds to the appropriate states. Consequently, the costs of coordinating fuel tax compliance are shifted from the carriers to the state government.

TAX PRINCIPLES

The decision for a state to cooperate with other states in the administration of the fuel tax should be considered in the context of generally accepted principles of taxation. The specific terminology used to discuss tax principles varies slightly from text to text (e.g., Brunori, 2001; Mikesell, 2003; Musgrave and Musgrave, 1989; and Smith, 2000), but there is general agreement that a tax should be fair and equitable, possess economic neutrality, generate adequate revenue, be economical and easy to administer, and provide for accountability in administration, enforcement, and compliance.

Fairness and Equity

One of the most debated principles of taxation is fairness and equity. There are two types of equity in this debate. Horizontal equity posits that similar taxpayers should be treated similarly. Vertical equity, on the other hand, is based on the ability to pay, which suggests that different taxpayers should be treated differently. Perhaps less controversial are equity concerns of a user fee, because those who pay the fee are those who benefit from the service. The motor fuel tax is generally earmarked for transportation expenditures, and as such, the fuel tax is viewed as a user fee paid by those who benefit from the transportation system. This is certainly the case for the fuel use tax paid under IFTA. Nevertheless, tax equity can still be a significant issue for fuel taxes. States respond to vertical equity concerns by setting fuel tax rates and permitting exemptions to the fuel tax base. Therefore, maintaining state control of tax rates and base exemptions is a political prerequisite of any cooperative tax administration agreement, especially since it allows individual states to achieve their own solutions for fairness and equity.

Adequate Revenue

A viable tax needs to produce sufficient revenue to fund the governmental services demanded by citizens. Important components of revenue adequacy are revenue stability and purchasing power. Stability implies that revenues will not vary dramatically from one year to the next. Stability is usually accomplished through a mix of tax revenue sources, much as a diversified investment portfolio balances risk over time. However, stability can also be maintained through a tax on an inelastic tax base (for an example see Denison, Hackbart and Ramsey, 1999). The fuel tax base is less elastic in the short run compared to the sales and income tax base, and therefore somewhat more stable. Despite the base stability, the purchasing power of the fuel tax has been deteriorating over the last decades, primarily because the fuel tax is set as a unit charge per gallon of fuel and therefore does not automatically keep pace with inflation (Facer and Kallioinen, 2004; de Cerreno, 2003). Revenue erosion also results from improvements in fuel efficiency. Revenue adequacy is another reason that a cooperative fuel tax agreement would need to maintain state control of tax rates.
Easy and Economical to Administer

The tax system should minimize the cost of compliance to the taxpayer and the cost of collection for the government. The more complicated the tax system, the higher the compliance costs. As we discuss later in the paper, compliance costs provide a key motivation in the interstate cooperative agreements of fuel tax administration.

Economic Neutrality

A tax should interfere as little as possible with market decisions (unless the tax is intended to change taxpayer behavior to mitigate negative externalities). Taxpayers should not be encouraged or discouraged from engaging in transactions simply to gain positive or avoid negative tax consequences. One way to promote neutrality is through a broad tax base. Tax compliance is also enhanced when there are few exemptions and deductions to a tax base. Economic neutrality often conflicts with vertical tax equity issues. A broad base may cause the least amount of distortion in the market, but a broad consumption tax base may also be regressive, placing a proportionally higher tax burden on those with low incomes. In the case of the diesel fuel tax, exemptions are provided for off-road and home heating applications. Economic neutrality is generally considered in context of the distortionary impact of tax rates through a price effect, but excessive compliance costs on a tax also can increase production costs and thereby reduce the supply of a good or service. Cooperation across the states increases the states’ ability to monitor compliance (especially tax avoidance) that might otherwise go unnoticed.

Accountability

Accountability encompasses several issues (Brunori, 2001). The government must administer and enforce the tax efficiently and fairly. Corruption in the administration or enforcement curtails accountability. The tax system should be open and transparent. Tax decisions should be made openly and the tax laws should be explicit. The tax should also be understandable to the taxpayer (Musgrave and Musgrave, 1989, p.216). An accountable tax also means that the tax can be adequately enforced.

The fuel tax, as a benefits tax, is widely viewed as transparent. However, enforcement of the fuel tax has been a concern, as the relatively large tax rate provides lucrative incentives for corruption and evasion (Denison and Eger, 2000; Denison, Eger and Hackbart, 2000; and Eger and Hackbart, 2005). Two policy options available to states for mitigating fuel tax evasion are to streamline the method of tax collection and to increase audit coverage (Denison and Eger, 2000). The federal government and most states collect the motor fuel taxes at “the rack,” the point that fuel is available for distribution at the wholesale level. Collecting the fuel tax at “the rack” has addressed many evasion issues from the federal perspective, but variation in state fuel tax rates still provides incentives for bootlegging schemes (Ibid, p.166). Eger and Hackbart (2005) find that increasing audit capacity can lead to increased state fuel tax assessments. Therefore, better coordination among states may improve audit coverage to detect and reduce bootlegging schemes. At the same time, evasion concerns may also cause some states to oppose relinquishing audit responsibility for out-of-state firms that have substantial operations in the state.

The principles of taxation provide a useful framework for analyzing interstate cooperative agreements like IFTA. As commerce increasingly expands beyond state borders, the tax administration costs borne by the government and the compliance costs borne by the taxpayer increase. There are potential economies to scale
in the administration, enforcement, and compliance costs associated with an excise tax that can be achieved through cooperative agreements. Nonetheless, the principles of equity, revenue adequacy and accountability necessitate that states possess the flexibility to change the tax rates and grant exemptions to the tax base as they see fit. States are also responsible for ensuring that taxes are properly assessed and paid. While some of this responsibility can be reasonably delegated to other jurisdictions, ultimately, it is the executive branch that will be held accountable for instances of fraud and abuse. A viable cooperative agreement like IFTA must take these factors into account.

**ECONOMIC INCENTIVES FOR COORDINATED FUEL TAX ADMINISTRATION**

People join clubs because the benefits of membership exceed the costs of membership (Cornes and Sandler, 1996, p. 347; Buchanan, 1965). Similarly, organizations enter into collaborative agreements, like IFTA, when the benefits of membership exceed the costs of maintaining the relationship. In this section economic incentives are discussed that could motivate and sustain collective enforcement of the fuel tax. The focus on the economic incentives is important in understanding how IFTA can be sustained. However, economic incentives alone do not explain the emergence of IFTA. Mancur Olson (1971) articulates that economic incentives are not always sufficient to motivate a group into collaborative action:

> It does not follow, because all of the individuals in a group would gain if they achieved their group objective, that they would act to achieve that objective, even if they were all rational and self-interested. Indeed unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests (pg. 2, emphasis in original).

One of Olson’s (1971) reasons for the lack of collective action is that costs are readily identified, but the benefits are widely disbursed and perhaps exhibit free rider problems. We now discuss the economic benefits to interstate coordination from the perspectives of both the state tax administration and the trucking industry.

**STATE PERSPECTIVE**

It is reasonable to ask why states would choose to cooperate on the administration and enforcement of the fuel tax. The benefit of better audit coverage is one reason. Consider the simplified scenario with two states, A and B. Ovals A and B in Figure 1 represent the universe of trucking firms who are licensed to carry freight on each state’s roadways. The overlap $\nu$ depicts the firms licensed to operate in both states. In the absence of cooperation State A is responsible for tax collection and auditing of all firms licensed in the state.

State A may decide to cooperate with State B on the enforcement of the fuel tax because auditing the dually licensed firms is shared. If State A continues to audit the same number of firms each year, the audit coverage will increase, since the number of firms to audit has decreased. The greater the overlap of $\nu$, the more audit coverage increases through cooperation. Often a state will have an established policy for the audit rate, so a change in the number of taxpayers will reduce the overall audit costs if the same audit coverage rate is maintained.

Increased audit coverage is a benefit to cooperation, but there are also transaction costs to cooperation. In particular, State A must ensure that State B is fulfilling the agreed auditing functions. Drawing
from the transaction cost literature, the economic conditions for cooperating on fuel tax enforcement are satisfied when $AC > AC' + TC$, where $AC$ is the auditing costs without cooperation, $AC'$ is the auditing costs with cooperation, and $TC$ is the transaction costs of monitoring the cooperative agreement. The equation can also be expressed as $AC - AC' > TC$.

The second condition for interstate cooperation on the fuel tax is that the reduction in audit costs resulting from cooperation must be more than the transaction costs. Transaction costs are those costs incurred by the state while monitoring the cooperative agreements. In a simple two state scenario, the transaction costs may be reasonable. However, as the number of members in the cooperative agreement increases, the transaction costs become more burdensome. For this reason the early cooperative fuel tax agreements were initiated among just a few states. For IFTA to be a national success, the individual transaction costs would need to be significantly reduced.

There are fortunately economies to scale in monitoring the international fuel tax agreement. Transaction costs were reduced by creating an organization (IFTA, Inc.) that became the clearinghouse for information and provides oversight of state adherence to the agreement. Another important step in reducing the transaction costs was the establishment of uniform definitions across states. For IFTA, this required that the membership agree upon the definition of vehicles subject to the fuel tax.

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2 Most consider Coase (1937) the origin of the transaction literature that deals with the way activities cluster into organizations. See Jarillo (1988), Blois (1990) and Williamson (1979) for discussions of transaction costs and organizational cooperation.
TRUCKING INDUSTRY PERSPECTIVE

As indicated previously, prior to IFTA, a freight trucking company was required to file fuel tax returns in each state where the company had logged miles. The impact of this compliance cost can be substantial for those companies operating in several states. The trucking industry was very interested in reducing their compliance costs. To understand the burden of compliance costs, consider a simplified income function where total revenues minus total costs and taxes is equal to income. Expressing total revenue, variable costs, and excise tax in terms of \( Q \) miles of freight, the income equation is

\[ RQ - VQ - FC - \mu Q - CC = \pi \]

where \( R \) is the average revenue per freight mile, \( Q \) is the total quantity of freight miles, \( V \) is the variable cost per mile, \( FC \) is the total fixed costs, \( \mu \) is the excise tax per mile, and \( CC \) represents the compliance costs of the excise tax. It is useful to consider the break-even framework to illustrate the trucking industry’s concern with the compliance costs. Setting \( \pi = 0 \) and solving for \( Q \) provides the break-even formula:

\[ Q^* = \frac{(FC + CC)}{(R - V - \mu)} \]

A firm will generate profits as long as \( R \) is more than \( V + \mu \), and the firm can operate at some volume of miles more than the breakeven quantity. The problem is that compliance costs, \( CC \), are not fixed and are endogenous with \( Q \). Compliance costs are driven by two activities: filing taxes and responding to audits. Thus, \( CC \) equals the total filing costs plus the expected audit costs. The total filing costs are the sum of the costs of completing the tax filing for each state where the firm had operations.

The annual audit costs are the average cost of undergoing an audit multiplied by the probability of an audit. For a firm that operates within a single state this calculation is straightforward. However, firms operating in more than one state increase the probability of getting audited.

It is evident in the break-even context that a firm is left in the difficult position of increasing the volume of miles driven without venturing out of the state, because doing so increases both tax compliance costs and the break-even quantity. Fuel price, fuel tax increases, and increased competition following deregulation reduced the contribution margins of the trucking firms. These pressures pushed the break-even point higher, motivating many firms to expand operations to other states. However, the interstate expansion also increased compliance costs, while at the same time there was downward pressure on prices from increased competition (see Blair, Kaserman and McClave, 1986 for a discussion of the impact of trucking deregulation). We do not have data on the actual compliance costs. Nonetheless, we do know that the trucking industry lobbied congress to intervene to reduce the costs for trucking firms to comply with the fuel tax (Pitcher, 2001). They were successful in that a key component of the ISTEA of 1991 was to require the implementation of a base jurisdiction to coordinate the collection and enforcement of the fuel tax and a uniform definition of qualified vehicle.

The implementation of ISTEA is a major factor in the Olson (1971) sense that provided the impetus for the contiguous 48 states to join IFTA. It is interesting however, that ten of the provinces of Canada have also elected to join IFTA, and they do not have to respond to the U.S. federal directive. Additionally, Oregon, which is not a fuel tax state, entered IFTA.

\[ 3 \] Prior to IFTA the American Trucking Association estimated the industry wise compliance costs at $750 million per year (Pitcher, 2001).
For trucks over 26,000 pounds, Oregon recovers highway–use costs through a weight-mile tax rather than a diesel fuel tax. Oregon does participate in IFTA so that Oregon–based companies who operate in states that do charge a fuel tax can file their fuel taxes through Oregon. Otherwise, Oregon–based companies would either have to shift to a different base state or purchase single–trip permits to satisfy their fuel tax liability. Under IFTA, carriers without an IFTA license cannot individually file quarterly fuel tax reports and make payments to states and provinces who are IFTA participants.

STATE COOPERATION THROUGH IFTA

The legal basis for IFTA is through interstate compacts that are permissible under Article I, Section 10, Clause 3 of the U.S. Constitution. Sundeen and Goehring (1999) point out that the legal basis of IFTA is partially an interstate compact, authorized by Congress in ISTEA, partially reciprocal state statutes and partially reciprocal administrative agreements. The interstate compact aspect of IFTA authorized by ISTEA gave states flexibility in addressing the coordination of the fuel tax as long as three core provisions are met (ISTEA 91—section 4008):

- A base jurisdiction concept, which allows motor carriers to report and pay fuel use taxes to a single jurisdiction.
- A uniform definition of a taxpayer for purposes of a fuel tax agreement.
- The retention of the taxing sovereignty of each state to determine tax rates and exemptions and to exercise other substantive tax authority.

Some of IFTA’s cooperative provisions occur through reciprocal state statutes. These reciprocal statutes are often necessary before a state can legally delegate some of the tax collection and enforcement authority to another state. Reciprocal state statutes for taxation were validated by the Supreme Court in U.S. Steel Corp. vs. Multistate Tax Comm’n. Reciprocal state statutes are approved by the legislature and signed into law by the governor.

Reciprocal administrative procedures, on the other hand, are not directly approved by the legislature. The reciprocal administrative agreements provide the mechanisms for carrying out the core provisions as outlined in three governing documents, IFTA Articles of Agreement, IFTA Audit Manual, and the IFTA Procedures Manual. These documents promote the uniform implementation of the agreement and consistency in administration.

Through the agreement, and the governing documents, participating jurisdictions agree to have consistent implementation so there is not an inherent advantage in choosing one base state over another. An equitable distribution of carriers among states is a concern for the states. A quick look at the data from the IFTA annual report for 2004 does not suggest grievous distortions in the distribution of base state accounts. Table 1 shows information about the number of carriers who have registered with a state as the base jurisdiction. Also shown is the fee charged for decals, the audit ratio, average fleet size and current tax on diesel fuel. Pennsylvania has the most accounts, with more than 15,000 accounts. Other states with a large number of accounts are California, Illinois, New Jersey, New York, North Carolina and Ohio. In general, states with a large number of accounts are states with a large population base and high gross state product. The states with relatively few accounts are Delaware, Montana, Nevada, Vermont and Wyoming. These states conversely have a smaller population base and gross state product. The trucking firms appear to reg-
### TABLE 1
SELECT AUDIT STATISTICS FOR U.S. IFTA ACCOUNTS, 2004

<table>
<thead>
<tr>
<th>State</th>
<th>Accounts</th>
<th>Decal Price</th>
<th>Audit Ratio</th>
<th>Average Fleet size</th>
<th>Diesel Tax</th>
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<td>Alabama</td>
<td>4,595</td>
<td>22</td>
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<td>0.027</td>
<td>7.3</td>
<td>0.225</td>
</tr>
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<td>2</td>
<td>0.021</td>
<td>5.1</td>
<td>0.278</td>
</tr>
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<td>10</td>
<td>0.039</td>
<td>6.5</td>
<td>0.260</td>
</tr>
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<td>0.033</td>
<td>4.9</td>
<td>0.220</td>
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<td>3</td>
<td>0.030</td>
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<td>0.041</td>
<td>24.3</td>
<td>0.270</td>
</tr>
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<td>3.16</td>
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ister in the states with larger population and gross state product. The states with more economic activity, as measured by gross state product, will likely have the tax capacity to conduct more audits.

IFTA, Inc.

The International Fuel Tax Association, Inc. (IFTA, Inc.) is a not-for-profit association incorporated in Arizona. Membership in the fuel tax agreement also constitutes membership in IFTA, Inc. The association was originally funded through a series of federal grants in addition to state contributions, but the association is now sustained through membership dues. The membership elects a nine-member board to oversee the activities of the association. The executive director of IFTA, Inc. serves as a nonvoting ex-officio member of the board. IFTA, Inc. coordinates the activities of the member jurisdictions to facilitate the administration of the agreement. IFTA, Inc. does not possess any taxing authority—that sovereign role is maintained exclusively by the individual states.

IFTA, Inc. also does not collect any tax payments or returns. It does assist the base jurisdictions in processing tax returns and audits by providing technical assistance to the member jurisdictions and licensees. IFTA, Inc. also operates a clearinghouse for information on tax rates and jurisdictional audit reports. IFTA, Inc. maintains a web site of current tax rates and exemptions for each of the 58 member jurisdictions (www.iftach.org). IFTA, Inc. also provides information to member jurisdictions on revoked and suspended licenses and other important information for coordinating the administration of the fuel tax. Last, IFTA, Inc. facilitates the process to amend and monitor the agreement.

IMPORTANT DIFFERENCES BETWEEN FUEL AND SALES TAXES

The fuel tax is quite different from the sales tax in the way it is levied and administered. These differences will undoubtedly have some impact on whether the streamlined sales tax project will lead to a successful interstate cooperative agreement. The fuel tax is viewed as a user fee while the sales tax augments the general fund. The fuel tax is a user fee that is levied per gallon, not on the transaction value, as is the sales tax. Fuel taxes are generally collected at the wholesale distribution level (rack), while sales tax is collected at the retail level.

Technology like trip recorders and electronic vehicle management systems (EVMS) has been employed in the trucking industry (Hubbard, 2000; 2003). This technology is also of great benefit to fuel tax auditors in verifying the allocation of miles to a state, and this information imposes very little additional financial burden on the tax payer.

To facilitate collections, sales vendors are asked to collect and remit the sales tax on behalf of the consumer. Sales vendors with nexus are compelled to collect and remit taxes to the state, and out of state vendors can volunteer to collect the sales tax, but are not compelled to do so. Currently there are relatively few vendors who voluntarily collect the use tax for states where the vendor has no nexus. Cornia et al. (2004) argue that if states agree to streamline the sales tax system, then the vendors could be enticed to collect the use tax.

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4 A log-linear regression on gross state product and the total number of lane miles of state roads explains about 73 percent of the variation in the state accounts. The coefficients on both gross state product and state lane miles are statistically significant. The findings corroborate the initial presumption that trucking accounts are registering in states with more demand for trucking services.

5 Membership dues generate $580,000 per year, which is $10,000 from each member.

6 For simplicity, all of the sales tax is considered to pass to the consumer. Musgrave and Musgrave (1989, p. 250) discuss that the incidence of the sales tax depends on the price elasticity of taxed items.
The compliance costs of the fuel tax are paid by the tax payer, unlike with the sales tax where collection costs fall on the vendor and individuals easily avoid the tax. Fuel tax compliance costs are borne by the freight companies who are the taxpayers. Compliance costs represent a material cost, and as compliance costs increased, the trucking firms mobilized to lobby for change. Similarly, the compliance costs of the tax on remote sales are borne by the consumer. However, the tax on remote sales is difficult to enforce, and therefore the tax itself is often evaded and compliance costs are immaterial. Shifting the collection and remittance of the use tax to remote vendors will improve collections, but both vendors and consumers will resist.

Another important difference between the fuel tax and the sales tax is that the fuel tax is levied for the privilege to use the roads in a jurisdiction. The remote sales tax is a tax on a sales transaction that occurs between a taxpayer and vendor in different states. Furthermore, the sales transaction can be completed without the taxpayer physically entering the other state. This has significant implications for enforcement. The fuel tax agreement can be enforced by restricting the taxpayer’s access to any of the other jurisdictions through revoking permits and decals. A revoked permit prohibits motor carriers from operating in any of the IFTA jurisdictions except through individual trip permits and decals. This represents a substantial economic incentive for a trucking company to comply with the taxes. On the other hand, it is comparably more difficult logistically and politically to restrict remote sales transactions when a taxpayer is noncompliant with the use tax.

CONCLUSION

In this paper we have discussed IFTA as an example of interstate tax coordination. By most measures IFTA has been a successful experience in interstate tax coordination. There are many factors that are vital to the success of the IFTA. First, there was consensus that the diesel fuel tax be apportioned among the states based on actual mileage in the state by a qualifying vehicle, and it was a straightforward task to define qualifying vehicles. With a uniform definition of the base, it is vital that states maintain control over tax rates in order to meet revenue demands. Another important feature of IFTA is the base jurisdiction concept, which reduced compliance costs for the trucking industry and potentially reduced audit costs for the states. Still, even with the unified base, streamlined reporting, and jurisdictional control of the tax rates, without the impetus of the federal intervention, IFTA participation by the contiguous states would have taken longer and perhaps never would have reached the current levels of participation. Tax compliance costs played a critical role in mobilizing the trucking industry to lobby congress for federal intervention.

An important factor to the continuing success of IFTA is that it is a dynamic agreement that can be modified to accommodate emerging needs. The maintenance of the agreement is facilitated through an organizational structure that provides governance, accountability and timely tax rate information. Some, but not all, of these factors are adaptable to other tax coordination efforts, such as the SSTP.

Acknowledgments

We are grateful to many people for their assistance in this research. Specifically, Roger Tew, former Utah State Tax Commissioner, and Lonette Turner, Executive Director of IFTA, Inc., provided useful background information and data on the International Fuel Tax Agreement. However, the authors alone bear responsibility for the analysis and conclusions in this manuscript.
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