



Transportation Company

An Opportunity to Save Sales and Use Taxes

EHTC State and Local Tax Services

INCOME & FRANCHISE TAX

- Tax Minimization Studies
- Business Structure Reviews
- Allocation and Apportionment Planning
- Combined, Consolidated, & Unitary Planning
- Nexus Studies
- Amended State Tax Returns from IRS Audits
- Single Business Tax Training

SALES & USE TAX

- Reverse Audits
- Compliance System Review
- Direct Pay & Compliance Agreements
- Exemption Certificate Documentation
- Industrial Processing / Manufacturing Exemption
- Utility Studies
- Nexus Studies
- Sales & Use Tax Training
- Transportation Company
- Procurement Company

PROPERTY (AD VOLOREM) TAX

- Real Property Tax Reviews
- Personal Property Tax Reviews

TAX AUDIT & APPEALS

- Sales & Use Tax Audit Defense & Appeals
- Income & Franchise Tax Audit Defense & Appeals
- Property Tax Audit Defense & Appeals
- State and Local Tax Litigation Support
- Merger & Acquisition Due Diligence Reviews
- Voluntary Disclosure

BUSINESS INCENTIVE SERVICES

- Business Relocation & Expansion Services
- Tax Credits, Exemptions, & Abatements
- Grants, Financing, & Infrastructure Assistance

Primary Benefit of Transportation Company

The primary benefit of the Transportation Company solution is an exemption of the sales and uses taxes on the purchase and repair cost of motor vehicles and other tangible personal properties used in the transportation business. This reduction is accomplished through the formation of a new entity ("Newco") to own and operate the fleet of vehicles. This entity will contract with affiliates to provide the transportation services it currently provides as a private carrier. Thus classified as a common carrier, this new entity will be eligible for the sales and use tax exemption. However, the benefit will vary based on the facts and the state of each client.

Examples of Sales & Use Tax Savings Using a Transportation Company Structure

- A food service business planned to purchase a fleet of 120 new truck tractors and 85 new refrigerated and non-refrigerated trailers. A recent restructuring using a transportation company was estimated to have annual savings of \$730,000.
- A construction company is expanding through acquisitions resulting in a combined fleet of 150 trucks. With a proposed restructuring plan using a transportation company, annual savings are estimated at \$315,000
- A food distribution business owns a fleet of 125 trucks. Through proper restructuring, annual sales and use tax savings are calculated at \$156,000.
- A manufacturer of recreational vehicles leases all truck tractors and trailers to deliver their product to customers in 48 states. By forming a transportation company, the manufacturer was able to eliminate the use tax previously paid on the lease payments.

Corporate Structure without a Transportation Company Structure

A corporation ("Company") currently operates a private fleet of trucks and has been paying sales and use tax on the purchase and lease of motor vehicles used in its trucking operations. The Company's trucking operations may include both intrastate and interstate travel. Any expansion in the trucking operation with the purchase of new transportation equipment, repairs, and truck maintenance will be subject to sales and use taxes. Proper corporate restructuring can avoid the payment of sales and use tax on these transportation related costs.



About EHTC

Echelbarger, Himebaugh, Tamm & Co., P.C. (EHTC), a professional corporation was established in 1977 by Dennis M. Echelbarger. Since that time, our Firm has grown to become one of the largest, most successful, local accounting firms in the Greater Grand Rapids, Michigan area, and we are a recognized leader in the business community. Our success is based on building partnering relationships with our customers. We are large enough to serve a wide diversity of customers but small enough to maintain personalized attention.

EHTC's professional team is highly trained to provide technical and consulting services in the areas of accounting, taxes, and strategic planning to nonprofit, profit and service organizations and related entities.

Minimizing your tax liability requires careful, advance planning rather than preparing tax returns as deadlines near. Our tax professionals provide complete tax services and are assisted by our extensive tax library and the latest technology.

We pay careful attention to your unique circumstances such as your current requirements and your plans for the future. We then recommend a plan that best suits your needs while minimizing financial risk.

Restructuring Using a Transportation Company

Newco will be organized under a specific state law and will elect to be treated as a single-member limited liability company (LLC) for both federal and state tax purposes. The Company then will contribute its transportation fleet to Newco; although Newco, as a single-member LLC, will be a disregarded entity for income tax purposes. Newco will remain a separate entity under a particular state law for sales and use tax purposes.

Newco will obtain authority to operate as a "common" carrier under applicable federal and state law. Newco will be the holder of the permit of certificate issued by the particular state or federal government authorizing the holder to engage in transportation of personal property belonging to others for consideration. Upon future purchases of transportation equipment and repairs by Newco, an exemption certificate indicating "primary use in providing highway transportation for hire" will be provided to the vendor. Upon receipt of the exemption certificate, the vendor will not invoice Newco for sales and use tax on transportation equipment and related maintenance and repairs. As a common carrier, Newco will possess and prominently display an ICC permit number on the motor vehicle and will provide such information on the exemption certificate used to claim the exemption.

Once Newco is established, the Company will transfer employees, such as truck drivers and repairmen, to Newco. The Company also will pay Newco in exchange for transportation services provided by Newco. Pricing arrangements must comply with all applicable and legal formalities.

The sales tax exemption for persons engaged in transportation for hire includes both common and contract carriers. The exemption may include all items attached to the vehicle, including repair parts, radios, computers, signs, reflectors, etc.; oil, lubricants, reefer fuel, and similar things consumed in the operation of the vehicle; services (labor) to repair or mechanically maintain the motor vehicle; and tank trailer cleaning between loads. The exemption does not include washing of the interior or exterior of the vehicle, log books, and other items used by the driver. The exemption does not include terminal or office equipment and supplies or anything else that is not part of the motor vehicles primarily used in highway transportation for hire.

EHTC Restructuring Using a Transportation Company

EHTC has seasoned tax professionals who have worked with clients in analyzing their need for a transportation company. If the situation is beneficial to set up a transportation company, then our tax professionals will prepare the work plan to implement the project and a technical analysis allowing the restructuring in a particular state. Our tax professionals, with the assistance from our client, will also complete the required registrations for the transportation company. Our tax professionals will become involved in the training of company employees on any necessary procedures to be followed to comply with the newly established transportation company.