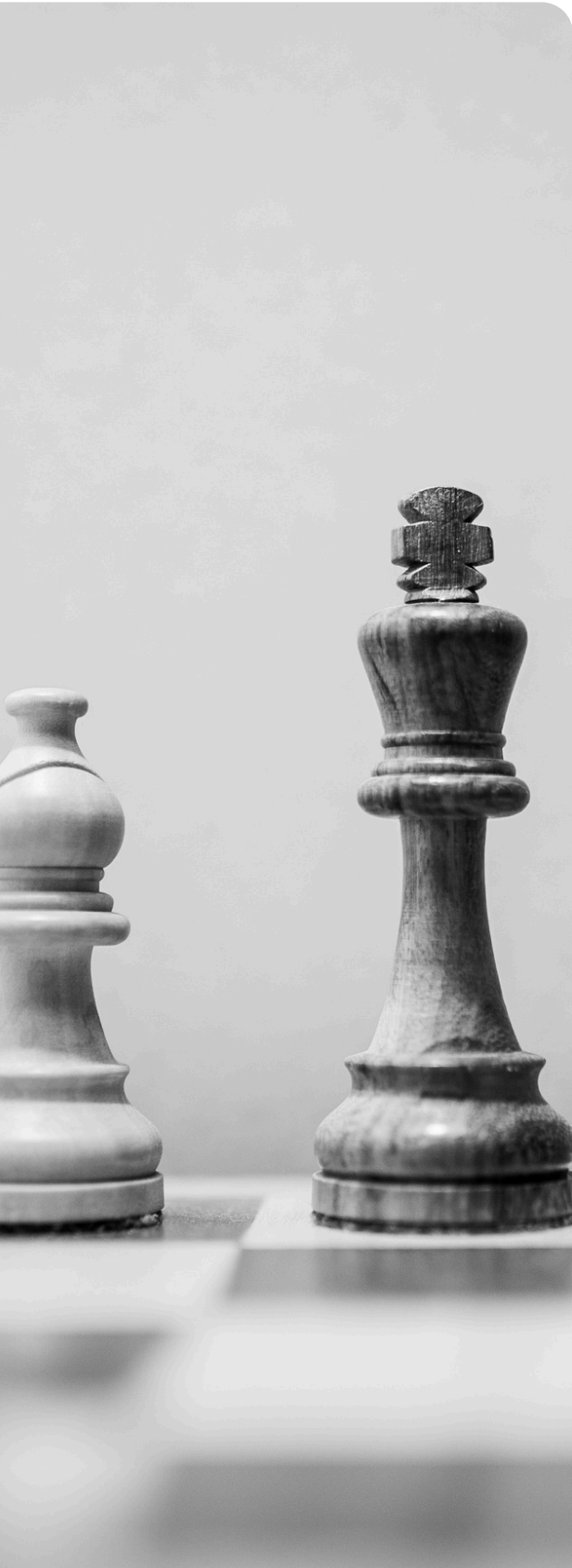


Guide

Fuel Tax Determination Strategies



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Introduction

Fuel tax calculation is a vital component in fuel businesses as it affects billing, revenue, compliance, risk, customer relationship, and trust.

It's also a complex and challenging process that requires constant attention and adaptation to the changing regulatory landscape

Explore the basics of fuel tax calculation, the challenges excise tax teams face, and the essential components of an effective fuel tax determination strategy.



Basics of fuel tax calculation

Fuel tax calculation is the process of determining the amount of taxes that apply to the sale, purchase, and distribution of fuel products, such as gasoline, diesel, aviation fuel, biodiesel, dyed diesel, alternative fuels, and more.

Fuel taxes are imposed by various jurisdictions, including federal, state, and local jurisdictions, to fund transportation infrastructure, environmental programs, and other public services. They're typically calculated based on the volume of fuel sold or consumed, the type of fuel product, the location of the sale or delivery, and the license status of the seller and buyer.

To perform accurate and compliant fuel tax calculations, you must understand the different components of a determination formula.

The key components to consider for fuel tax formulas are:

- 1 What type of fuel?
- 2 What jurisdiction?
- 3 Does the jurisdiction have an excise tax on that type of fuel?
- 4 Where is the sale happening?
- 5 Are you buying or selling?
- 6 What license does the customer or vendor have?
- 7 Does the counterparty have exemptions?
- 8 Does your counterparty have a license?
- 9 Are there collection allowances?
- 10 Are there administrative discounts?

Common challenges in fuel taxation

Fuel tax calculation is a complex task that involves numerous variables, dependencies, and exceptions. Fuel companies face several challenges in fuel tax, including:

Complex Regulatory Landscape

Fuel tax regulations are subject to constant changes and advancements as authorities enact new laws, update existing rules, or provide new interpretations and guidance.

Staying current with these changes entails a considerable amount of research, monitoring, and analysis, as well as prompt and precise updates to the tax tables and formulas.

No One Source of Truth

It can be difficult to stay informed about tax rate changes, especially if you don't have access to a reliable source of information.

Many excise tax professionals in the fuel industry must subscribe to multiple sources such as FTA, Bloomberg, and Google Alerts to receive updates on tax rate changes.

It's even harder to keep track of local jurisdiction changes. Accurate interpretation and extensive research by senior-level employees are required to ensure the correct application of tax rates.

Reliance on IT

Tax rates, jurisdiction regulations, and other significant variables can change unexpectedly.

Since most locally created tax tables are inflexible, IT assistance is often required to change the system's code. As a result, the tax department depends on IT and its priorities.

Counterparty Licensing

Verifying licensure monthly is a burdensome task for many companies, and some even avoid it altogether. However, this approach poses significant risks to operations.

To ensure the correct fuel rate, aligning it with the appropriate counterparty licensure is important. When filing your returns, if the amount paid is insufficient for the jurisdiction, you could be required to make an additional payment, including any applicable taxes and potentially a penalty for significant discrepancies.

Maintaining Tax Tables

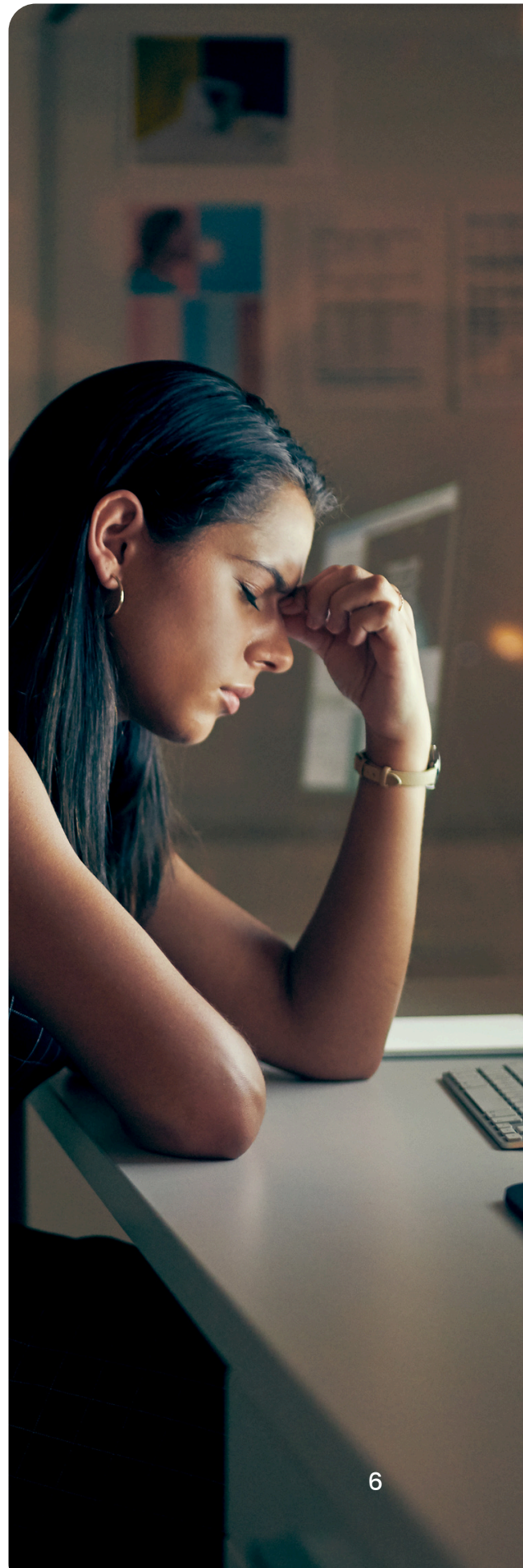
Tax tables are an essential component of an efficient and precise ERP system. However, keeping tax tables up-to-date and accurate is a challenging task, as it involves managing several variables such as product information, customer and vendor details, tax rates, and jurisdiction regulations.

Even the slightest mistake in tax calculations can result in credit and rebills, and could hinder customer relationships.

Doing More With Less

As companies grow and operate in more locations, their tax teams may face an increasing workload without an increase in staffing.

This situation is not sustainable as it can lead to errors and risks, leaving the company vulnerable. In addition, it can cause burnout among staff and result in a high staff turnover rate, which is especially problematic in a specialized industry such as fuel excise tax.



Creating an effective tax determination strategy

A robust and intentional tax determination strategy is essential for fuel businesses that want to achieve precision and accuracy, avoid audits, reduce costs, and enhance overall operations.

Create Standard Operating Procedures

Develop a Standard Operating Procedure (SOP) in collaboration with all key stakeholders and internal compliance protocols, including policies, procedures, controls, and documentation.

To ensure the team follows the workflow consistently, delegate tasks and responsibilities. Each team member should know exactly what they own. As the saying goes, "If everyone owns it, nobody does".

Know What the Business is Entitled To

Staying informed on what you are entitled to when it comes to collection allowance, tare allowance, and administrative discounts is a huge tax determination strategy for keeping a competitive advantage and helping to maintain the bottom line for the business.

Some businesses take the money they gain from these collections and discounts and use it towards strategic initiatives within their tax team like for automation or for professional development training.

Collaborate Across the Business

For the tax team to operate effectively, they must have complete, reliable, and up-to-date data on business transactions. That includes volume, price, product, location, and license status of each sale or delivery.

Working with operations and finance might open the door to communication so you aren't the last to know about an acquisition, expanding into new territories, or adding new products to the business.

Communication across the enterprise prevents scrambling with last minute changes.

Stay Up-to-Date & Timely

Excise tax team members should ensure that they have the correct and current tax rates, tax bases, and tax credits for each jurisdiction, fuel type, and license status.

You should subscribe to industry sources and set Google Alerts for your jurisdiction to stay up to date on tax rate changes.

Use Decision-Tree Determination Framework

Decision tree logic can accommodate the intricate, multi-layered rules and exceptions that characterize fuel excise taxes.

Unlike table-based calculations, which can become cumbersome and less flexible when dealing with numerous variables and conditions, decision trees simplify the process by guiding each calculation through a series of logical steps or branches.

This method allows for more nuanced decision-making, considering various factors such as fuel type, usage, geography, and applicable exemptions dynamically and intuitively.

Consequently, decision tree logic not only enhances accuracy in calculations but also improves efficiency and adaptability to regulatory changes, making it a preferred choice for managing the intricacies of fuel excise tax.

Verify Counterparty Licenses

Verifying licensure is a necessary evil but doesn't have to be such a heavy lift. Streamlining the licenses as much as possible with your tax determination engine can ensure that your calculations are accurate.



Why the shift to third parties

In many cases, businesses opt to switch from their in-house tax table systems to third-party fuel tax determination engines due to changes within their organization. This could occur when the business is expanding into new areas, diversifying its product line, experiencing a loss of tax expertise, switching back-office systems, or acquiring new entities.

Adopting a third-party solution for fuel excise tax determination is a strategic move that addresses several critical operational challenges, ensuring efficiency and compliance.

Convenience & Efficiency

When businesses face challenges in calculating taxes and lack the necessary infrastructure to handle them, it's often more convenient and efficient to partner with a third party.

Tax technology not only ensures reliability and adaptability to changes in tax laws but also maximizes the return on investment (ROI) compared to hiring additional internal employees.

Combat the Knowledge Gap

Experienced tax professionals are retiring. Loss of key team members creates the risk of losing institutional knowledge crucial for accurate tax calculations.

By leveraging a third-party solution, businesses can mitigate this risk, as these platforms are designed with expert systems and up-to-date regulatory databases, eliminating the reliance on individual knowledge.

Increase Accuracy

Automating the tax determination process reduces the likelihood of costly compliance errors, and offers scalability to adjust to the company's needs, optimizing operational costs and enhancing overall business efficiency.

Minimize Reliance on IT

Tax technology can help strip out dependencies on IT support or outdated in-house systems by providing a flexible, scalable, and continuously updated tax determination framework.

Focus on Maximizing Profits

The efficiencies gained and time saved from implementing tax technology, free up your senior tax analysts to focus on strategic initiatives that move the needle.

Additionally, an advanced tax determination system will simplify calculations of tare, collection allowances and administrative discounts the business is owed.

Ready to get started?

See how our clients have increased filing efficiencies, saved time, and improved accuracy by automating their tax compliance processes

[See client success stories here](#)

