

Guide

Motor Fuel Taxation for Beginners



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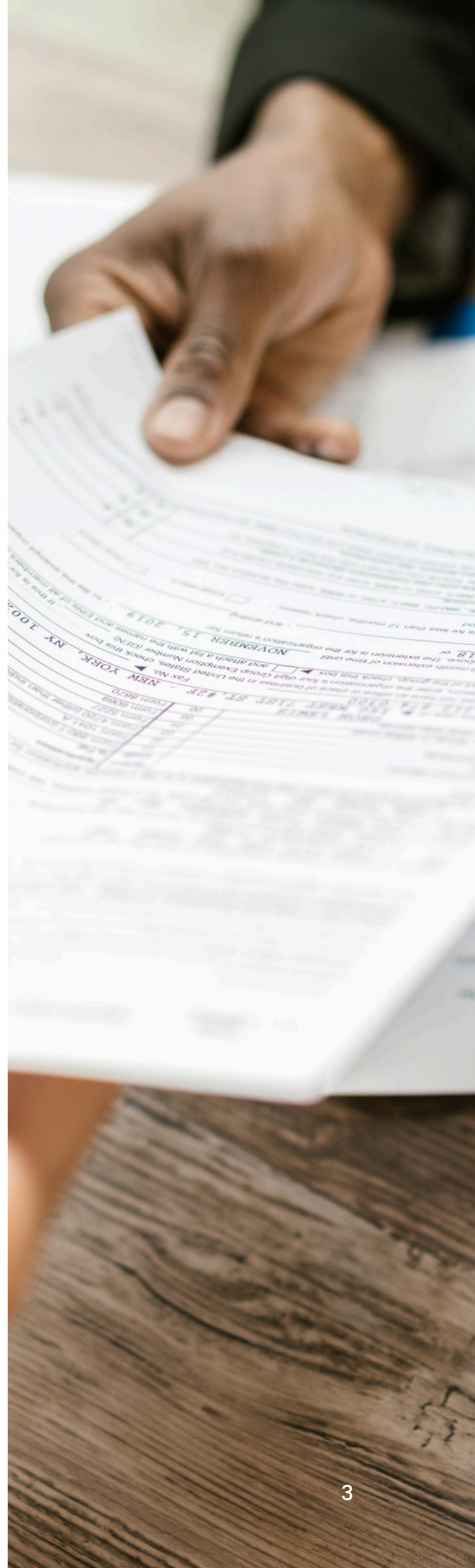
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Introduction

New to taxation in the motor fuel industry? Here's your crash course.

Dive into excise tax in the motor fuel industry, why it can be challenging, and how it impacts the the business.



Point of taxation

The point of taxation is the point of sale that taxes are collected. There are five general points of taxation in the motor fuel industry, plus a federal point of taxation that is imposed at the terminal rack.



At the Rack

Taxes are collected by the seller from the purchaser when fuel is dispensed out of the terminal rack system.

Distributor

A person who is licensed as a distributor and who may purchase from a seller without taxes. The last licensed distributor who sells to an unlicensed customer is responsible for collecting and remitting the taxes from the customer of the jurisdiction.

First Receiver

First licensed person to receive fuel 'below the rack' from a terminal is responsible for collecting and remitting taxes to the jurisdiction when they sell to a customer.

First Receipt

Taxes are collected at the retail pump. (Only diesel fuel in Oregon is taxed this way)

Retail

Taxes are due on the first receipt or first import into the jurisdiction.

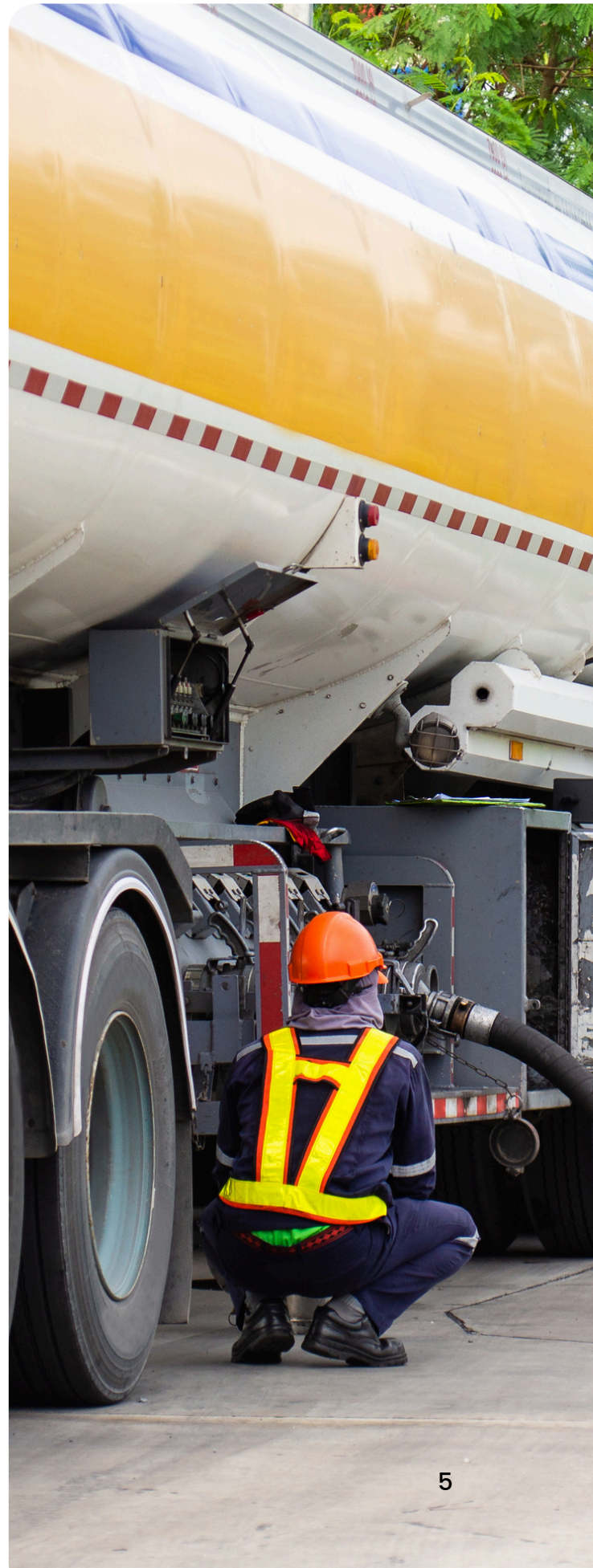
The point of taxation varies among jurisdictions and products within jurisdictions. For example, Tennessee imposes its tax at the rack for diesel but imposes tax on the first receipt for gasoline.

In some cases, counties and cities within a state have their own point of taxation. Cook County, Illinois, for instance, has a different point of taxation than other jurisdictions in Illinois.

The jurisdictional regulations dictate not only the tax on the product but the point of taxation and license requirements.

That's why tax teams must know the regulations for each jurisdiction the company conducts business in, how products are handled, origin and destination of the product, and license status of the business and counterparties.

Keeping current on state statutes will help you understand a jurisdiction's tax rates, licensing requirements, and other crucial details to avoid the risk of miscalculating and potentially misreporting excise taxes.



Products

Definitions of motor fuel products vary depending on the jurisdiction. Whether a product is taxed or exempt from tax also varies from jurisdiction to jurisdiction.

Product Categories

Some common product categories include, diesel fuel, gasoline fuel, biodiesel, biodiesel blends, ethanol, ethanol blends, kerosene, dyed kerosene, dyed diesel, dyed biodiesel, dyed biodiesel blends, hydrogen, jet fuel, liquid natural gas (LNG), compressed natural gas (CNG), and propane (LPG).

The definition of what is included in each product category may change by jurisdiction, which then impacts how your organizations products are taxed and reported.

Each product category has a corresponding product code to associate products with tax rates.

Pro tip: Refer to the FTA Motor Fuel Uniformity Guide for additional information about products and their corresponding FTA product codes to better understand how products are categorized.

How Products Are Taxed

Whether a product is taxed or exempt from tax also varies from jurisdiction to jurisdiction.

Here are a few examples:

- Jurisdictions may tax finished products at the current rate. (B00 and E00 can be considered finished products in some jurisdictions)

- Jurisdictions may tax the finished product at a reduced tax rate due to certain components being exempt from the tax. (Texas reduces the tax rate on biodiesel blends by the percentage of biodiesel present).
- Jurisdictions may tax certain biofuel blends at a reduced rate as an incentive to purchase (Iowa taxes E15 and higher blends at a reduced tax rate).

How Taxes are Reported

Jurisdictions will also decide how products are reported.

For instance, if a product is blended with ethanol, it can generally be reported as gasoline in some states; however, Iowa wants to see the blending percentages in reports because of its tax rate structure.

Be cognizant of each jurisdictions' legislation to ensure correct collection and remittance of tax.

Licensing basics

Licensing is a key factor in determining taxes and fees in the motor fuel industry. Each license type identifies with specific tax obligations, collection allowances, discounts, and deferrals.

Supplier

Typically, the highest form of license with the most ability to conduct business and is usually at the beginning of the supply chain.

Distributor

Purchases products from the supplier to resell to other distributors or sell to retailers.

Blender

Allows an entity to blend base and component products.

Importer

Allows license holders to take fuel into a jurisdiction.

Exporter

Allows license holders to take fuel out of a jurisdiction.

Transporter

Allows license holders to pick up, transport, and deliver products for other entities. Some jurisdictions also refer to this as a carrier.

Terminal Operator

Allows the license holder to operate a terminal.



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.

Fuel Tax Formula

Fuel taxes are 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:

- 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?

Taxes & Fess

It's not just state excise taxes that must be calculated. Fuel products are subject to multiple taxes and fees, administered by multiple agencies.

Your tax determination system, whether it's manual, in-house, or third party tax technology should calculate:

- Motor fuel excise tax
- Environmental impact fees
- Inspection fees
- Sales tax
- Pre-paid sales tax
- Gross receipts tax
- Local jurisdictional taxes/fees (counties, cities, parishes, policing jurisdictions, etc.)
- And more!

Reporting taxes and fees

Reporting taxes and fees in the motor fuel industry is critical to staying compliant.

Filing Basics

Reporting in the fuel industry includes multiple taxes and fees, administered by multiple agencies, which leads to multiple forms.

Returns and payments may be submitted in paper or electronic format, depending on jurisdictional requirements.

If permitted by a jurisdiction, paper return forms are prepared with information from the filing period and mailed.

The taxing authority may also require a receipt of the return on or before the due date or that the return be postmarked on or before the return due date to avoid late filing penalties.

Pro tip: If the return or payment due date falls on a holiday/weekend, the taxing authority will require filing either on the last business day prior or the first business day after the required due date

Electronic Filing

Jurisdictions may allow or require electronic filing of returns as well.

Submissions may be EDI, XML, TXT, CSV, Excel, web entry, etc., per the taxing authority. The appropriate level of detail and proper formatting of the required information ensures acceptance of the return by the taxing authority. Returns that are rejected may result in penalties, interest, or both.



Ready to get started?

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