

Compliance Subcommittee

The Compliance Subcommittee promotes point 11 of the 11 Point Plan.

2013 – 2014 Annual Report

The Compliance Sub-committee continues to identify, research, discuss and resolve compliance issues. It is important for states and industry to work together to reduce motor fuel tax evasion. Uniformity meetings are a great forum for discussion of current events, issues and trends. If you are not able to travel, then please feel free to contact any of the State or Industry Co-Chairs regarding issues, concerns or new compliance methods to be discussed at the meetings. If you would like to participate in the discussions and are unable to travel then teleconferencing may be an option.

Training

The FTA conducted a Basic Training class in Sacramento, CA on October 20 – 24, 2013 and had 52 attendees (25 state and 26 industry).

The FTA conducted a Basic Training class in Kansas City, Mo on July 27 – 31, 2014 and had 40 attendees.

The FTA Advanced Training class is currently scheduled for November, 2014.

If your state wishes to sponsor a training class you should contact Cindy Anders-Robb with the FTA.

Dyed Fuel Project

The Dyed Fuel Project continues to be a good deterrent to tax evasion. The use of dyed fuel on the roads and highways is an issue we all deal with, which negatively impacts highway funds that support the infrastructure needs.

Dyed fuel violation statistics are gathered quarterly, compiled and presented at the Uniformity meetings. There are many states that have a dyed fuel program and range from State Highway Patrol officers to dedicated fuel inspectors and auditors taking fuel samples.

The committee discussed the amount of penalties per occurrence and also discussed following up with audits for repeat offenders.

Discussion Items

- New Legislation from the states that were in attendance at the meetings.
- LNG/CNG issues:
 - (a) Indiana shared that states should be aware of LNG being changed to CNG.
 - (b) Natural Gas taxation when sold to customer for taxable and non-taxable use-issue provided by Jeff Clarke, NGV America-Examples: Drilling rigs, railroad, marine. This is governed by state statutes and regulations.
- Refineries not delivering regular no lead gas to terminals? Discussions indicated that due to federal blending requirements, RIN's and cost of refining 84 octane vs 87 octane is driving this trend. 84 octane gas can be blended with ethanol at a cheaper cost to raise octane to required level.
- Ethanol/biodiesel issues, railroad/airline spurs, carrier issues.
- Miscellaneous:
 - Some states are finding a lot of —se tax liability” for companies that have filed for motor fuel tax refunds.
 - Brief discussion regarding what type of ID#s states require to be reported when their taxpayers are dealing with foreign entities, since it was indicated they often do not

- have 9 digit FEINs, but rather 8, 10 or 11 characters.
- Discussed upcoming changes with avgas changing from 100LL to a no lead equivalent.
- Solicited projects for 2015

The following videos were shown:

Renewable natural gas from landfill powers refuse vehicles
 CNG stations being built
 Home Phil station installation and use

Articles that were distributed:

Several articles were handed out regarding CNG & LNG and the present & future use of these fuels by commercial fleets.

<http://www.fleetsandfuels.com/>

Also provided the article –The New Way to Tax: Pay Per Mile Driven” regarding the state of Washington charging a tax of \$100 per year on electric cars and VMT (Vehicle Miles Traveled).

<http://www.cnbc.com/id/100359287/>

—Gulf Coast set for Bakken-like boom with liquefied natural gas”

—The Divvy biker who would fuel America’s trucking industry”

Compliance Tool Document

The –Compliance Tool” document was approved by Uniformity Committee on September 21, 2013. The white paper document will be added to the 2014 Uniformity Guide.

Compliance Tools September, 2013

•Audits

The Webster dictionary defines audit as a formal or official examination and verification of an account book’.

There are many points in the motor fuel distribution chain between refinery and the retail pump at your local station or truck stop in which audits are performed. Even if your state’s point of taxation is at the rack you may not want to rule out auditing other points in the distribution chain. At all points of the distribution chain the objective of an audit is to verify that all gallons are accurately reported and tax paid to the proper taxing authority.

- | | |
|---------------------|---------------------------|
| ❖ Refiner | ❖ Producer/Manufacturer |
| ❖ Terminal Operator | ❖ Alternative Fuel Dealer |
| ❖ Supplier | ❖ User |
| ❖ Distributor | ❖ Liquid Fuel Carrier |
| ❖ Retailer | ❖ IFTA Licensee |
| ❖ Blender | |

Audits are performed at customer sites or through virtual means (see Virtual Audits white paper document in the FTA Motor Fuel Tax Section Uniformity Book), but with either method a good audit plan is necessary to result in a good audit, however an audit does not always result in an assessment of tax.

A good audit plan includes;

- ✓Pre-Planning
- ✓Understanding the Industry
- ✓Understanding Accounting System
- ✓Interviewing individual(s) responsible for accounting for and filing motor fuel reports
- ✓Determining type of system in use
- ✓Assessing internal controls
- ✓Knowing your source documents
- ✓Determining what the system captures, records and reports
- ✓Understanding transaction flow
- ✓Verifying how system handles each type of transaction
- ✓Keeping an open mind, eyes and always alert, looking for areas that carry the highest risk for error or fraud
- ✓Tracking transactions and payments
- ✓Validating third party records
- ✓Maintaining detailed notes and documentation

You may also find it beneficial to perform a joint audit with the IRS or other states.

•Fuel Tracking

Fuel Tracking is the process of reconciling data elements reported on a source return to the information reported by a third party. A source return or third party data is defined as receipt, disbursement, or delivery schedules that are filed with a taxing jurisdiction. These schedules are found on terminal operator, terminal supplier, distributor, and petroleum carrier reports, among others. The reconciliation process typically links the source record to third party data by means of a license and document (bill of lading) number. If the transaction is found on one report, but not on the other, it is identified as an exception. Exceptions identify recording errors (i.e. source document had the wrong purchaser or seller Federal Employer Identification Number (FEIN)) or transactions that were never reported. Exceptions may be a sign of lost revenue and should be reviewed by a taxing jurisdiction.

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