

Prorate and Fuel Tax Services

Prorate and Fuel Tax

Mission statement:

"Prorate and Fuel Tax will protect the public safety and welfare in all areas we license and regulate, and ensure the fair, timely, and efficient licensing of commercial interstate vehicles, collection of revenue, issuance of refunds and conducting of audits."

Prorate and Fuel Tax

- ▶ Vehicle Services Division of DOL
- ▶ 75 staff
- ▶ Five locations
- ▶ Core Functions
 - Licensing of Interstate Commercial Vehicles
 - Collection and Refund of State Fuel Taxes
 - Collection of Vehicle Registration Fees
- ▶ Revenue Collection
 - **\$2.2 billion** in fuel tax revenues per biennium

Fuel Tax Revenue

- ▶ **Highways and Transportation**
 - Construction
 - Road Maintenance
 - Ferry System
- ▶ **Law Enforcement**
 - State Patrol
 - State Criminal Justice Activities

Prorate and Fuel Tax

Karla Laughlin
Administrator

Fuel Tax
Paul Johnson,
Manager

Motor Carrier
Art Farley,
Manager

**Compliance &
Financial Svc.**
Thao Manikhoth,
Manager

Audit
Jeff Beach,
Manager

Distributor Unit
Refund Unit
Investigation
Unit

IFTA Unit
IRP Unit
Help Desk
Field Offices

Financial Unit
Compliance Unit
Motor Carrier-
Financial Unit

SW Region
NW Region
East Region

What is Fuel Tax? – Paul Johnson

Federal and state tax imposed on each gallon of fuel sold in Washington

▶ Federal tax:

- Motor Fuel - 18.4 cents per gallon
- Special Fuel - 24.4 cents per gallon
- Aircraft Fuel – 21.9 cents per gallon (non-commercial use)

▶ State tax:

- Motor Fuel - 37.5 cents per gallon
- Special Fuel – 37.5 cents per gallon
- Aircraft Fuel – 11 cents per gallon

Fuel Tax – Examples

- ▶ Purchase 10 gallons of gasoline at \$2.00 a gallon
 - Total Federal tax paid = \$1.84
 - Total State tax paid = \$3.75

- ▶ Purchase 100 gallons of diesel at \$2.50 a gallon
 - Total Federal tax paid = \$24.40
 - Total State tax paid = \$37.50

- ▶ Purchase 1,000 gallons of aviation gasoline at \$4.50 a gallon
 - Total Federal tax paid - \$219
 - Total State tax paid - \$110

Common Terms and Definitions

Supplier:

- ▶ Companies licensed by the federal government
- ▶ Conduct tax free transactions in bulk transfer-terminal system
- ▶ Own inventory within bulk transfer-terminal system

Importers:

- ▶ Companies import fuel to Washington

Blenders:

- ▶ Companies blend non-taxed product with taxed fuel
- ▶ Manufacturers of alternative fuel

Common Terms and Definitions –Continued

Distributor:

- ▶ “Jobbers” are middlemen in fuel distribution system
- ▶ Purchase fuel from suppliers

Retailers:

- ▶ Service stations & convenience stores selling fuel to end users
- ▶ Bulk fuel users who purchase fuel & deliver into storage tanks
 - Examples: construction and lumber companies

Common Terms and Definitions –Continued

Bulk Transfer Terminal System:

- Refineries, pipelines, vessels, and terminals
- Excludes fuel contained in railcars, trailers, tanker trucks, and other equipment

Terminal:

- Bulk fuel storage facility supplied by pipeline or vessel

Terminal Rack:

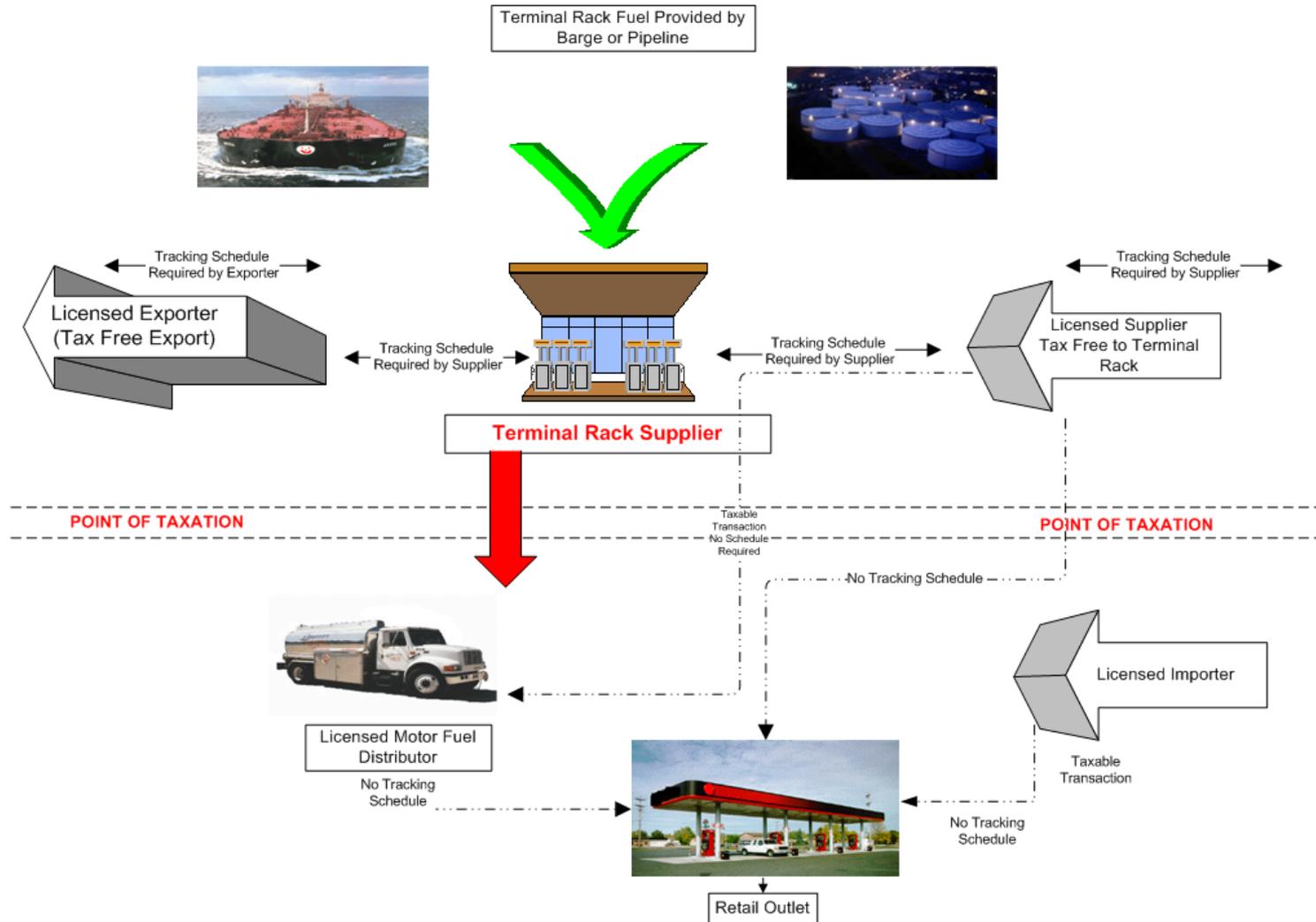
- A giant gas pump located at a terminal
- Distributors remove fuel for retailers and bulk fuel users

Fuel Tax Collection

Benefits

- State fuel taxes are imposed when:
 - ✓ fuel is removed from a terminal rack,
 - ✓ imported,
 - ✓ produced, or
 - ✓ blended in Washington
- Creates less administrative and regulatory responsibility for DOL and industry

Tax at the Rack – Motor Fuel



01/2009

Exemptions to Fuel Tax

Motor Fuel:

- Off-highway use
- auxiliary equipment not used for motive power

Diesel Fuel:

- WSDOT, counties, or municipalities
- Publicly owned fire fighting equipment
- U.S. Government vehicles
- Off-highway use

Other:

- Marine fuel
- Heating oil
- Aircraft



Fuel Tax Services – Distributor Unit

Tax Return Processing and Reconciliations

- Three fuel classifications: Motor Fuel, Special Fuel, and Aircraft
- Revenue
- Refunds
- 11 license types
- Reports to state and federal agencies

Fuel Tax Services – Refunds Unit

Refunds – Statutory Exemptions

- Loggers, farmers, construction, urban transit, and marine use

12,500 Active Permit Holders

- File refund claims monthly and up to 13-months
- 6,600 refund claims annually

Dyed Diesel Users

- IRS authorized to use on-highway
- 60 Licensees

Fuel Tax Services – Investigation Unit

DOL partners with WSP to investigate:

- Illegal imports
 - ✓ Trucks, railroads, barges
- Dyed Special Fuel
 - ✓ Illegal Use
- Assessments
 - ✓ Taxes, penalties, and interest



What is dyed diesel fuel?

- ▶ Red dye injected into diesel fuel when removed from a terminal rack
- ▶ Used only for non-taxable purposes

Uses include:

- ✓ agriculture
- ✓ logging
- ✓ public transportation
- ✓ home heating

Tribal Fuel Tax Agreements

- The Governor may enter into motor vehicle fuel tax compact agreements (delegated to the Director of DOL)
- Federally recognized tribes with a reservation in Washington
- Limited to motor fuel and special fuel taxes
- Fuel taxes included in price of fuel delivered to tribally-licensed retail station

Background of Tribal Agreements

- ▶ Fuel Tax Legislation passed in 2007
- ▶ Provided framework for DOL and Tribes regarding taxation of fuel
- ▶ Prior, fuel tax issues often resulted in legal action
- ▶ Provided clear agreement authority & means for resolution for state and tribes
- ▶ DOL liaison: Alan Haight, Deputy Director
- ▶ PR&FT responsible for business functions of agreements

Three Types of Agreements:

Per Capita Agreement

Based upon formula

- Average per capita consumption of gasoline
- Number of enrolled tribal members, on or near reservation
- Current state fuel tax rate

Result:

- Annual amount of fuel tax refunded to tribe

Types of Agreements – Continued

75% Refund and 25% State Tax Agreement

- Tribes purchase fuel for sale at tribally owned fuel stations
- State fuel tax included
- Tribe reports all fuel purchases to DOL
- Tribe receives 75 percent of state fuel tax revenue collected as refund
- State retains 25 percent as state tax

Types of Agreements – Continued

Consent Decree

A judicial decree is a court's approval of an agreement between the parties to resolve a dispute

Fuel Tax Agreements 2008

- ▶ 19 Total Agreements
- ▶ 7 - Per Capita Formula
- ▶ 12 – 75% Refund and 25% State Tax
 - 2 of the 12 are Consent Decrees

- ▶ Revenue and Refunds
 - Approximately \$21 million fuel tax refunds (all agreement types)
 - Revenue to state from 75/25 Agreements - \$7.3 million

Motor Carrier Services – Art Farley

- International Registration Plan (IRP)
- International Fuel Tax Agreement (IFTA)
- Commercial Vehicle Information Systems and Network Program (CVISN)
- Performance Registration Information Systems Program (PRISM)

International Agreements

- ▶ 57 jurisdictions, includes 48 states and 9 Canadian Provinces
- ▶ Types:
 - International Registration Plan (IRP)
 - ✓ Registration Fees
 - International Fuel Tax Agreement (IFTA)
 - ✓ Fuel Taxes

International Agreements – Continued

- Interstate commercial vehicle registration and fuel tax programs
- Federal law requires participation, unless exempt
- Canadian Provinces participate
- One stop-shop vehicle registration and fuel tax licensing
- Approximately 4,000 companies and 30,000 vehicles
- IRP & IFTA Revenue received and sent = \$154,066,157

State and Federal – Data Sharing

▶ **Types:**

- Commercial Vehicle Information Systems and Networks Program (CVISN)
- Performance Registration Information Systems Program (PRISM)

▶ **Partnerships:**

- ✓ Washington State Patrol
- ✓ Department of Transportation
- ✓ Federal Motor Carrier Safety Administration

▶ **Results:**

- Carrier Safety
- Link Commercial Vehicle registration with safety rating
- Deny and suspend vehicle registrations
- Screening Commercial Vehicles at roadside
- Interstate and Intrastate information provided

Registration Reciprocity

- Repository for vehicle registration agreements
- Reciprocity agreements between Washington, other states, and Canadian Provinces
- Designed to grant operating authority for entities moving between states and provinces

- Examples include:
 - ✓ Dealer and manufacturer plates
 - ✓ Farm vehicles
 - ✓ Trip permits
 - ✓ Handicapped parking permits
 - ✓ Taxi cabs
 - ✓ Routes of travel

Financial Audit Services (FAS) – Thao Manikhoth

Account and Reconcile Financial Transactions Within Prorate and Fuel Tax

- ▶ Reconcile all fuel tax revenues received
- ▶ Recommend approval or denial of all refunds
 - ✓ Approximately 26,000 refund warrants
 - ✓ \$63 million in gross fuel tax refunds
- ▶ Issue legal collection documents
- ▶ Provide statistical information on fuel tax collections and refunds for internal and external distribution

Compliance Unit

Collect Unpaid Fuel Taxes and Proportional Registration Fees

- Record Tax Liens and Warrants
- File Statutory and Foreign Judgments
- Serve Notice to Withhold and Deliver
- File Proof of Claim for Bankruptcies
- Negotiate Deferred Payment Contracts and Settlement Agreements

Motor Carrier Financial Unit (MCFU)

Account and Reconcile Financial Transactions for Motor Carrier Services

- Exchange IFTA and IRP data
- Distribute fuel taxes and licensing fees for Washington State and on behalf of 57 jurisdictions.
- Reconcile IFTA and IRP data and revenues received from other jurisdictions
- Reconcile IRP payments received from licensees and refund warrants issued to licensees
- Monthly: prepare and reconcile various detailed reports

Audit Section– Jeff Beach

Audit Fuel Tax Licensees and Refund Permit Holders

Audit Types: IFTA, IRP, Motor Fuel and Special Fuel Supplier, Importers, Exporters, Aircraft Distributors, refund claims, and more

Audit selection: 3% of Accounts Mandated for IFTA and IRP, random or by referral

Audit Section –Continued

Auditors compare and reconcile tax returns to licensees' records

- ▶ 26 Audit staff in five offices statewide
- ▶ 400 audits conducted annually
- ▶ Approximately 80 hours to conduct an audit
- ▶ Auditor issues assessment of zero, credit, or taxpayer owing

Audit Section –Continued

- ▶ Complete IFTA and IRP audits for all jurisdictions where travel occurred
- ▶ Out-of-state audits (major oil companies) conducted throughout the U.S.
- ▶ Appeal Process - Administrative Procedures Act
- ▶ Every 4 years DOL is audited by the National IFTA/IRP Association

Questions?

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Tribal Fuel Tax Agreement Questions?

- **General Inquiries:**
 - Prorate and Fuel Tax Administrator or Fuel Tax Manager
- **Fuel Tax Revenue Collected and Refunds:**
 - Fuel Tax Manager
- **Fuel Tax Agreements:**
 - Prorate and Fuel Tax Administrator
- **Fuel Tax Agreement Audits:**
 - Fuel Tax Manager