

Filling Up the Fiscal Tank: To Maintain Revenue Without Raising Taxes, States Turn to Our VISTA/FT Solution

Revenue from motor fuel taxes is essential to many state budgets, especially for road and highway funding. But when the fiscal equation changes, that revenue fluctuates. Rather than raising taxes to bring in more revenue, states turn to ACS to streamline processing, enforce compliance and increase collections. So highway funds aren't running on empty.

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The taxes jurisdictions collect on the sale of motor fuels support a variety of state activities. Many states use their tax proceeds to fund the building, repair and maintenance of roads and highways. In the past, jurisdictions have been able to count on the federal government's Highway Trust Fund for at least a portion of the monies needed. However, for a variety of reasons, the money available in the Highway Trust Fund is dwindling. This means jurisdictions will have to find other ways of raising the money they need to support their transportation infrastructures. Motor fuel tax is an obvious place to start. Some jurisdictions may choose to raise tax rates, but this is risky. First, raising taxes is generally unpopular. Second, increasing taxes can lead to reductions in use – resulting in a much smaller revenue increase than expected.

While federal and state governments have taken legislative and regulatory steps to eliminate fuel tax evasion, it still remains a major problem.

A better choice is to streamline the motor fuel tax systems so that jurisdictions are collecting all of the tax revenues due them, instead of losing millions of dollars per year to error, fraud and evasion. ACS's Motor Fuel Tracking system, VISTA/FT, is an electronic solution designed specifically to help jurisdictions maximize tax collections while simplifying the filing and processing of fuel tax returns – and by making it easier to audit returns, to help states enforce existing tax laws and collect taxes owed.

The Problem

Motor fuel excise taxes are an important source of federal and state revenues that finance a substantial share of our nation's transportation systems. While federal and state governments have taken legislative and regulatory steps to eliminate fuel tax evasion, it still remains a major problem.

To avoid paying taxes, companies have created schemes involving illegal blending, cross-border evasion and use of "vertically integrated" companies.

Gasoline and diesel fuel excise taxes are collected at many levels across the country, from retail to the terminal rack. Each state feels these levels of reporting will help reduce tax evasion. However, reporting alone isn't enough. One common evasion method is to acquire tax-exempt home heating fuel and selling it as diesel fuel to evade the tax. By blending additives with home heating fuel, tax evaders can sell this fuel as diesel fuel to power on-road diesel trucks. One truckload of home heating fuel can yield an operator an extra \$4,000. It is important to note that the retailers may or may not know they are involved in such a process.

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Another method of tax evasion involves aviation jet fuel, which can readily be used to power on-road diesel trucks by simply adding motor fuel. While at the federal level diesel is taxed at 24.4 cents per gallon, jet fuel itself is taxed at either 4.4 cents per gallon for commercial airline use or 21.9 cents per gallon for general aviation use. Some states do not charge a tax for jet fuel at all. These drastic variations in taxes can be exploited for major profits by determined tax evaders.

While the full extent of tax evasion isn't clear, there are many reasons to suspect it is widespread. For example, while aviation jet fuel consumption by airlines dropped precipitously immediately following the events of September 11, 2001, due to decreased demand, the large volumes of jet fuel already in the distribution system at that time were still used. Jet fuel production returned to near pre-September 11 levels by January 2002, despite a continued reduction in demand by the commercial airline sector. And jet fuel prices remained elevated despite continued apparent oversupply.

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But what's the financial bottom line? How much money is being lost to jet fuel-related tax evasion schemes? In 2002, according to the Bureau of Transportation Statistics, commercial airlines used an average of 400 million gallons less per month than was allegedly supplied to them. If that fuel was bootlegged or rebranded by tax cheats, state and federal governments may have lost \$170 million in potential tax revenue per month for a year, totaling over \$2 billion nationwide.

The Challenge

But the fiscal equation is always changing, across all types of fuels. Thirty-five years ago, a crisis in the Middle East sent the price of oil soaring overnight from \$3 to \$5 per barrel and to \$11 within three months. In the summer of 1973, a gallon of gasoline quadrupled in price from just 30 cents to a staggering \$1.20.

Three decades later, a new energy crisis, again marked by doubling oil prices and troubles in the Middle East, is upon us. But the backdrop against which it occurs is even more volatile and unpredictable. We saw fuel explode from \$2.50 a gallon to over \$4.00 a gallon, and drop again to a nationwide average of \$2.45 by November 2008. The unpredictability of the market can benefit the average consumer when prices go low, but can be disastrous for state coffers whether the price leaps up or drops. When prices go up, consumption goes down, lowering tax revenue. At a time when there is little room for error in state budgets, these fluctuations are a huge problem.

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In boom times, many state governments let tax obligations go unenforced, reasoning that the work needed to collect the taxes might cost more than the potential payoff. But in the current budget shortfall, states are turning their attention to collection once again. One way government agencies are getting this accomplished is by making their tax reporting and collections more efficient and productive by streamlining tax reporting and getting their tax returns filed electronically. However, this is only one piece of the puzzle. To make sure all taxes are being collected, a jurisdiction needs to take this process one step further. By bringing together the electronic tax returns and analyzing the data to detect anomalies, states could uncover fuel tax evasion. Without bringing in an audit compliance tool, jurisdictions are missing the revenue they desperately need.

The sheer volume of reported data, along with limited staff resources and the loss of experienced staff to retirement, makes it extremely difficult to process information in any meaningful manner. It is not uncommon for a single load of fuel to change hands numerous times, requiring the state to track the load from filer to filer to determine who is responsible to submit taxes. It is nearly impossible to handle these complicated transactions manually. Fuel tracking is further complicated by:

- Shipments of fuel that have been split into multiple loads
- Fuel types that have been switched at any point in the reporting chain
- Incorrect manifests
- Erroneous changes in reported buyers and sellers.

Detailed reporting and automated analysis are absolutely essential to make the most of this complicated, confusing information – to target those who have the strongest potential for evasion, and yield maximum results from audit activities.

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Our Audit Compliance System

VISTA/FT was designed and built around the needs of state government. It tracks reporting errors on each reported load of fuel on each tax return, at both a summary and a detail level.

Detailed reporting errors are available online, through a suite of standard reports. This information is particularly useful for investigators and auditors, as well as the operational division. In addition, ACS has developed a sophisticated audit tool that allows auditors to pull down the necessary information when on site conducting an audit.

VISTA/FT was created to specifically track electronically all fuel types and gallons throughout the entire distribution chain. It automates desk and field audits by electronically comparing tax returns and searching for discrepancies at the detail level. It was constructed to enable jurisdictions to readily identify details about fuel movements within the state, in a manner that has never been available before. VISTA/FT provides a clear and concise view of each tax filer's return within a state and all discrepancies detected to the detail line item.

Another significant feature of VISTA/FT is the electronic filing front end, which greatly reduces tax-filing errors, provides the tools required to reduce or eliminate tax avoidance, and increases customer service by streamlining tax return processing through the electronic filing methodology. Reporting errors are reduced and compliance is enhanced – with the result of providing significant increases in a state's motor fuel tax revenues.

By combining both the front-end electronic filing with the back-end audit compliance module, states that use the ACS system have the ultimate tax reporting and fuel tax evasion-prevention system in the country.

ACS provides fuel tax reporting in Arkansas, Kentucky, Michigan, Mississippi and Virginia.

Next Steps

For more information on VISTA/FT and ACS's approach to enhancing tax compliance and increasing revenue through fuel tax tracking, contact Michael Albin, Marketing Director, at 602-412-2011 or mike.albin@acs-inc.com.

