

## **2008 Reform of Gasoline and Motor Fuel Collection**

**ISSUE:** Based on the experiences of other states which have reformed the method for collecting taxes on gasoline and motor fuels, millions of dollars of Alabama revenue is going uncollected each year because of the collection method prescribed by Alabama law.

The revenue generated from the state's Motor Fuel Taxes goes into the state Road and Bridge Fund. This money provides services that benefit all Alabamians: highway and bridge improvement, design and maintenance, purchase of rights-of-way, aviation activities, administration costs and Department of Transportation licensing and safety activities. Motor Fuel Taxes also contribute to Alabama State Trooper highway patrol operations and to the counties and other entities for the construction and maintenance of their road and bridge system.

**BACKGROUND:** There are three possible levels of collection for taxes on motor fuel: the retail level, the distributor level and the rack/terminal level. To avoid remitting the proper tax, some employ elaborate schemes involving illegal blending, cross-border evasion and fuel diversion. Shifting the collection point to the terminal rack reduces the number of tax filers and eliminates the ability to utilize the most common approaches to avoid the remittance of the proper amount of tax.

### **Some examples of Motor Fuel Tax evasion:**

- Using untaxed, dyed fuel (home heating oil) for highway use.
- Using untaxed, undyed kerosene (block pump) for highway use.
- Altering fuel composition by bleaching and/or adding kerosene.
- Introducing waste oil products to increase the untaxed volume of fuel.
- Adding or blending untaxed product.
- Importing and/or bootlegging fuel from outside the state without remitting the appropriate state Motor Fuel Taxes.
- Diverting and failing to report a load of fuel that includes product for which other state's taxes were collected at the refinery point.
- Selling tax-free fuel purchased for export as taxed fuel.

**IMPACT OF LEGISLATION:** The main change is to change the tax collection to the point of transfer between suppliers and distributors, known as the terminal rack. The alternation is meant to increase collections of motor fuel taxes by collecting at a higher point in the motor fuel distribution system, thereby reducing opportunities for fraud and tax evasion. The tax would be collected from the wholesalers by the operations of the terminal rack and then remitted to the state.