



North Carolina Department of Revenue

Michael F. Easley  
Governor

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Secretary

November 1, 2007

**Memorandum**

To: The Joint Legislative Commission on Governmental Operations  
The Joint Legislative Transportation Oversight Committee

From: Reginald S. Hinton *Reginald S. Hinton*  
Secretary of Revenue

Subject: Report on Fuel Tax Action Plan

The Motor Fuel Tax Action Plan Project commenced on July 1, 2005. A goal to collect \$15,000,000 from Action Plan activities between July 1, 2005 through June 30, 2007 was established. The General Assembly authorized the Department of Revenue to establish nineteen new positions to implement the Fuel Tax Action Plan. This report includes information about the Department's progress in implementing the Plan, the number of new authorized positions that have been filled, and the amount of revenue generated from the implementation of the Plan.

The Action Plan consists of various audit and investigative initiatives throughout the entire motor fuels distribution chain to ensure that the proper amount of motor fuel taxes are being remitted to the State, as well as to identify any potential non-compliance that may be occurring.

**Resources**

In our recruitment efforts to date, all nineteen positions authorized by the General Assembly have been filled.

6 Tax Investigator	3 Processing Assistant V
6 Revenue Tax Auditor I	1 Revenue Administration Officer II
2 Information Processing Technician	1 Applications Analyst Programmer II

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## Motor Fuels Tracking System

The Motor Fuels Tracking System is a computer system that is streamlining tax return processing through electronic filing and tracking the flow of fuel throughout the distribution chain, from pipeline to terminal to supplier by cross-matching fuel tax returns. The system will increase the level of customer service provided to taxpayers and assist in the overall efforts of the Motor Fuels Tax Division to better identify fuel non-compliance. The system was implemented in two phases, Phase I, Filing and Payments, and Phase II, Cross-Matching of tax data and various summary reports.

### **Phase I – Filing and Payments**

The Filing and Payments functionality of the system was made available for taxpayer use on October 2, 2006. To date there have been 1,996 tax returns filed via the Web application by taxpayers, 447 tax returns have been filed through Electronic Data Interchange (EDI) and 8,407 returns processed internally by DOR staff utilizing the Government application, for a total of 10,450 tax returns that have been processed through the Fuel Tracking System since moving to production. This total represents 63 percent of the returns processed during the reported period.

The volume and type of returns entered into the system has necessitated the adjustment of various processing procedures. Internal users continue to be trained on these processing and procedural changes. Selected members of the Motor Fuels staff will undergo training on the cross match functionality in the near future. Taxpayers have been contacted by the Department to complete a training survey to determine the best approach to educating them about using the system. Most taxpayers have opted to use the online instructions provided on the agency's website in lieu of formal training. However, the Motor Fuels Tax Division provides more extensive training to any taxpayer if a specific request is received.

#### Benefits:

- Electronic filing provides more accurate and detailed information
- Electronic payments must accompany electronic filing
- Manual data entry of returns will be drastically reduced
- Taxpayers have online access to their returns
- Returns can be amended electronically
- Increase in revenue due to a reduction in omissions and errors

### **Phase II – Cross-Matching of tax data and various Summary Reports**

Electronic Data Interchange (EDI) certification of taxpayers (Suppliers, Terminal Operators and Transporters) continues to be the highest project priority. An established EDI project team is constantly working with taxpayers to coordinate the certification of the EDI filers projected to generate the majority of the revenue that will be collected from

the Fuel Tracking System. A minimum of three months of filed tax return data from all the appropriate tax types in the fuel distribution chain will be necessary before the Department can effectively utilize this functionality.

**Benefits:**

- The ability to effectively and accurately track motor fuel throughout the fuel distribution chain
- Increased ability to perform more effective audits and investigations
- Improved tax compliance
- Increase in revenue due to an increase in tax compliance
- Cross-match analysis and reporting
- Trend analysis reporting
- Standard and ad hoc query reporting

Revenue Impact

\$204,697 collected during the quarter ending September 30, 2007 can be attributed to the Motor Fuel Tax Action Plan. A total of \$8,903,797 has been collected as a result of the initiatives implemented since the start of Motor Fuel Tax Action Plan.

Although delinquent collections have fallen below the project's goal, voluntary compliance with motor fuel tax laws has improved and total revenues from motor fuel taxes have increased over the past 12 months. The Department believes increased compliance and collections are related to the overall enforcement efforts associated with the Action Plan initiatives. Taxpayer education through our customer service outreach programs has helped taxpayers gain a better understanding of tax laws and reporting requirements, which has also contributed to an increase in voluntary compliance and revenue collections. Although the initial two-year project period has concluded, the Action Plan's resources and initiatives, along with the Motor Fuels Tracking System, will continue to have a positive effect on revenue and compliance in the future.

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cc: Doug Holbrook, Fiscal Research Division