



## North Carolina Department of Revenue

Michael F. Easley  
Governor

Reginald S. Hinton  
Secretary

February 1, 2008

### **Memorandum**

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

From: Reginald 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. The General Assembly authorized the Department of Revenue to establish nineteen new positions to implement the Fuel Tax Action Plan and execute the initiatives. This report includes information regarding the Department's progress in implementing the plan, the number of new authorized positions that have been filled, and the amount and source of revenue generated from the implementation.

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 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

P.O. Box 25000, Raleigh, North Carolina 27640  
Phone (919) 733-7211  
State Courier 51-71-00  
Website: [www.dornc.com](http://www.dornc.com)  
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## **Motor Fuels Tracking System**

The Motor Fuels Tracking System is a computer system that will streamline tax return processing through electronic filing and track 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 is being implemented in two phases, Phase I, Filing and Payments, and Phase II, Cross-Matching of tax data and Various Summary Reports. Overall project status is as follows:

### **Phase I – Filing and Payments**

**Status:** The Filing and Payments functionality of the system was made available for taxpayer use on October 2, 2006. Taxpayers began filing their September tax returns prior to the October 22, 2006 filing deadline. To date there have been 2,985 tax returns filed via the Web application by taxpayers, 760 tax returns have been filed through Electronic Data Interchange (EDI) and 10,068 returns processed internally by DOR staff utilizing the Government application, for a total of 13,813 tax returns that have been processed through the Fuel Tracking System since moving to production. This number represents 76% of the total returns filed during this period.

The volume and type of returns entered into the system have necessitated the adjustment of various processing procedures. Internal users continue to be trained on these processing and procedural changes. 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.

Electronic filing of motor fuels tax returns will become mandatory effective July 1, 2008, for all taxpayers who file returns that require accompanying schedules of detailed information.

### **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**

**Status:** Cross-Match functionality was migrated to production on March 18, 2007. 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. Cross match will not commence until after the e-file mandate has been implemented to ensure the quality and completeness of data.

### **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
- Crossmatch analysis and reporting
- Trend analysis reporting
- Standard and ad hoc query reporting

### **Revenue Impact**

\$752,517 in revenue collected during the quarter ending December 31, 2007 can be attributed to the Motor Fuel Tax Action Plan. A total of \$9,656,314 in revenue 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

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.

cc: Doug Holbrooke, Fiscal Research Division

MOTOR FUELS TAX DIVISION  
QUARTERLY STATISTICAL REPORT  
October 1, 2007 - December 31, 2007

Examinations	Audit Code	Proposed Assessments	Add'l Proposed Penalties	Amount Waived/Abated	Net Assessments	Collections
Bulk User - Special Fuels	APBU	\$140,395.98	\$7,740.40	\$26,329.11	\$121,807.27	\$25,980.22
City/County	ACC	\$0.00	\$2,625.73	\$0.00	\$2,625.73	\$32.48
Concrete Mixers	ACM	\$194.95	\$314.79	\$4,887.69	(\$4,377.95)	\$3,981.13
Credential Penalty	APPC	\$39,300.00	\$0.00	\$3,700.00	\$35,600.00	\$12,800.00
Distributor	ADS	\$93,250.39	\$0.00	\$0.00	\$93,250.39	\$1,754.76
Dyed Diesel Penalty	APPD	\$54,798.85	\$0.00	\$2,000.00	\$52,798.85	\$39,482.18
IFTA - L Record Project (Audit)	LTA	\$261,273.93	\$0.00	\$0.00	\$261,273.93	\$0.00
IFTA Audit	AIF	\$331,617.18	\$0.00	\$46,558.34	\$285,058.84	\$64,574.92
Intrastate	AIN	\$657.24	\$0.00	\$0.00	\$657.24	\$0.00
Non Profit	ANP	\$6,208.80	\$0.00	\$22.13	\$6,186.67	\$6,254.40
Non-Highway	ANH	\$31,885.69	\$16,116.11	\$2,725.22	\$45,276.58	\$45,685.68
Non-Highway	FNH	\$1,871.56	\$206.42	\$0.00	\$2,077.98	\$1,421.20
Occasional Importer	AOI	\$0.00	\$0.00	\$0.00	\$0.00	\$46.65
Shipping Document Penalty	APPB	\$25,000.00	\$0.00	\$0.00	\$25,000.00	\$5,000.00
Tank Wagon Importer	ATI	\$37.49	\$0.00	\$0.00	\$37.49	\$0.00
Terminal Operator Annual	ATA	\$4,427.38	\$0.00	\$0.00	\$4,427.38	\$4,427.38
<b>Total Amount Assessed by Examinations:</b>		<b>\$990,919.44</b>	<b>\$27,003.45</b>	<b>\$86,222.49</b>	<b>\$931,700.40</b>	<b>\$211,441.00</b>

**MOTOR FUELS TAX DIVISION**  
**QUARTERLY STATISTICAL REPORT**  
October 1, 2007 - December 31, 2007

<b>Operations</b>	<b>Tax Type</b>	<b>Proposed Assessments</b>	<b>Add'l Proposed Penalties</b>	<b>Amount Waived/Abated</b>	<b>Net Assessments</b>	<b>Collections</b>
Alternative Fuel Provider	AF	\$8,822.93	\$13.63	\$621.35	\$8,215.21	\$7,959.68
City/County	CC	\$1,397.95	\$0.00	\$0.00	\$1,397.95	\$0.00
Distributor	DS	\$0.00	\$0.00	\$0.00	\$0.00	\$60,000.00
Dyed Diesel Backup Tax Return	DB	\$5,388.66	\$349.45	\$18,014.84	(\$12,276.73)	\$36,122.09
Fuel Alcohol Provider	FA	\$341.43	\$0.00	\$0.00	\$341.43	\$622.52
IFTA	IF	\$174,600.50	\$0.00	\$16,852.49	\$157,748.01	\$68,831.17
Kerosene Supplier	KS	\$861.57	\$0.00	\$0.00	\$861.57	\$480.42
Motor Fuels	MF	\$0.00	\$0.00	\$0.00	\$0.00	\$46.68
Non-Highway	NH	\$1,254.69	\$0.00	\$0.00	\$1,254.69	\$0.00
Occasional Importer	OI	\$275.71	\$0.00	\$0.00	\$275.71	\$0.00
Special Fuels Bulk User	BU	\$0.00	\$35.44	\$156.30	(\$120.86)	\$599.44
Supplier	SU	\$67,371.27	\$5,165.15	\$79,530.81	(\$6,994.39)	\$100,493.81
Tank Wagon Importer	TI	\$1,546.31	\$0.00	\$0.00	\$1,546.31	\$0.00
Tare	TE	\$2,072.26	\$0.00	\$168.64	\$1,903.62	\$0.00
Taxicabs	TC	\$114.67	\$0.00	\$0.00	\$114.67	\$114.67
Terminal Operator	TA	\$721.19	\$0.00	\$0.00	\$721.19	\$0.00
Transporter	TR	\$100.00	\$0.00	\$0.00	\$100.00	\$50.00
<b>Total Amount Assessed by Operations:</b>		<b>\$264,869.14</b>	<b>\$5,563.67</b>	<b>\$115,344.43</b>	<b>\$155,088.38</b>	<b>\$275,320.48</b>

MOTOR FUELS TAX DIVISION  
 QUARTERLY STATISTICAL REPORT  
 October 1, 2007 - December 31, 2007

<b>Proposed Totals</b>		<b>Proposed Assessments</b>	<b>Add'l Proposed Penalties</b>	<b>Amount Waived/Abated</b>	<b>Net Assessments</b>	<b>Collections</b>
		\$1,255,788.58	\$32,567.12	\$201,566.92	\$1,086,788.78	\$486,761.48
<b>Finals Totals</b>		<b>Amounts</b>				
Collection Fee Assessed:		\$18,211.30				
Collection Fee Adjustments:		(\$43,136.89)				
Collection Fee Collected:						\$6,491.27
Waivers/Abatements on Final Assessments:		\$298,078.54				
Accrued Interest on Final Assessments:		\$44,233.51				
Collections on Final Assessments:						\$259,264.03
Total Final Collections						<u>\$265,755.30</u>
<b>Total Proposed and Final Collections</b>						<b>\$752,516.78</b>