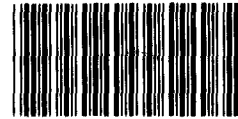


May 1992

TAX
ADMINISTRATION

Status of Efforts to
Curb Motor Fuel Tax
Evasion



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■

General Government Division**B-247329****May 12, 1992****The Honorable Thomas J. Downey
The Honorable Raymond J. McGrath
House of Representatives**

You asked us to study federal motor fuel excise tax compliance and administration. You pointed out that recent indictments of several firms for excise tax evasion lent credence to the concern of petroleum industry officials that millions of dollars of federal motor fuel taxes are not being collected.

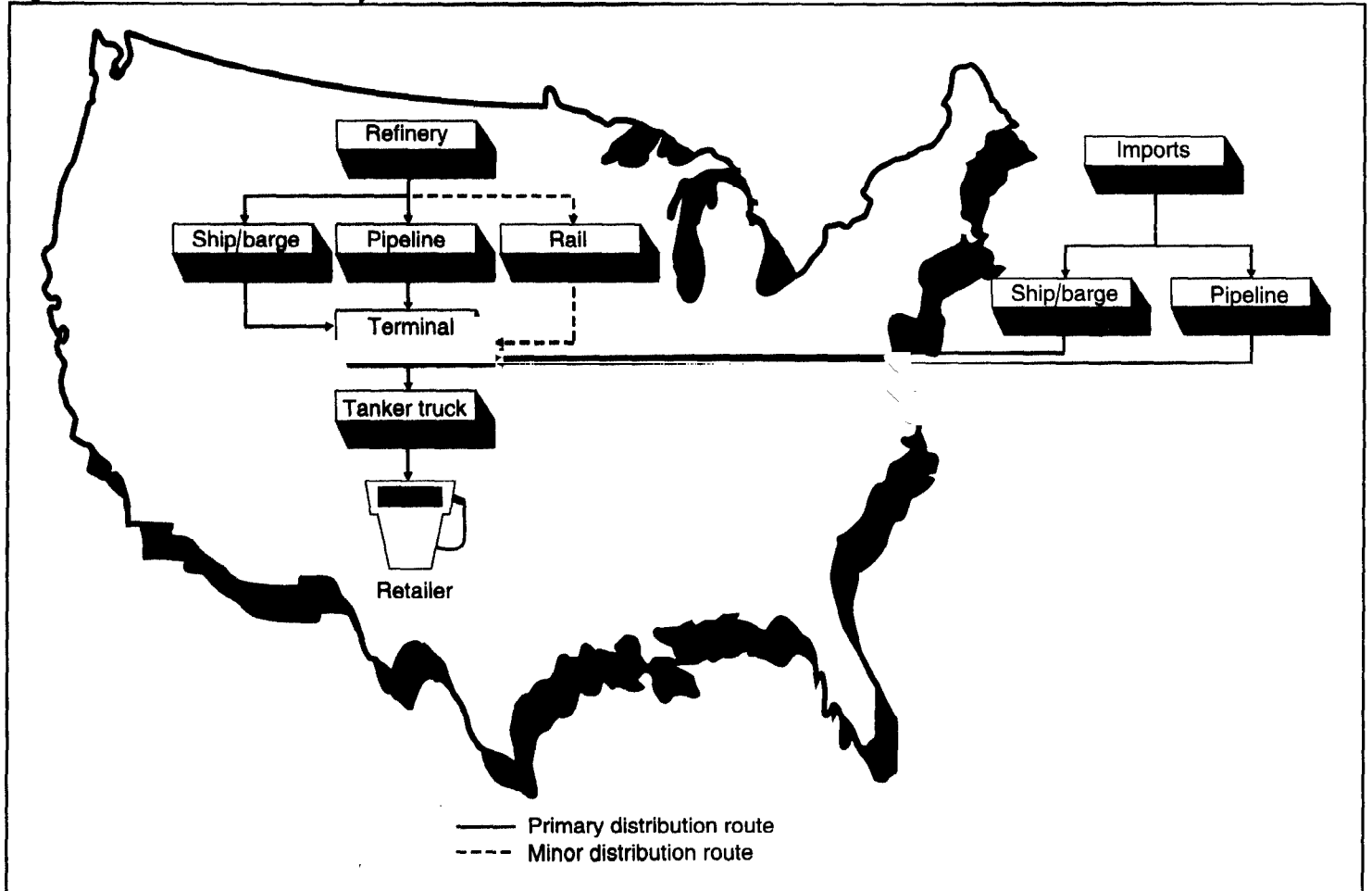
This report discusses (1) the lack of information to determine motor fuel excise tax compliance, (2) the effect of recent legislation on compliance, (3) the effectiveness of Internal Revenue Service (IRS) programs in promoting compliance, and (4) state initiatives that could be adapted to bolster federal motor fuel excise tax collections. See appendix II for further details on our objectives, scope, and methodology.

Background

In the mid-1980s, petroleum industry officials and federal and state tax administrators estimated annual gasoline tax losses to the federal government at over \$1 billion. At that time, wholesale distributors, retail chains with 10 or more gasoline sales outlets, and the many businesses that could potentially own fuel before the retail level in the distribution system (e.g., blender, throughputter, terminal operator, importer, refiner) could register as producers with IRS and purchase gasoline tax-free. Any business registered as a producer, upon selling gasoline to businesses not registered to purchase it tax-free, was responsible for remitting the tax to IRS on those sales.

Several types of firms continue to own fuel at various stages in the gasoline distribution system, and gasoline itself can flow along several routes before delivery to the retail station. Figure 1 illustrates the basic flow of gasoline within the distribution system to the retail outlet.

Figure 1: Gasoline Distribution System



The most popular tax evasion scheme in the mid-1980s, called a daisy chain, involved purchasing the product tax-free, passing ownership (on paper only) through several companies, and selling the same product to a retailer as tax-paid. IRS received no federal excise tax because the company in the chain that purchased the product tax-free and sold it as tax-paid (known as the burn company) had few if any assets or ceased to operate.

To counter these losses, Congress, through the Tax Reform Act (TRA) of 1986, moved the tax collection point in the distribution system so that fewer companies would be involved. For gasoline, the collection point was

moved from wholesale distributors to the terminal (where gasoline is dispensed from the terminal rack into a railcar or truck); for diesel fuel, it generally moved from the retailer to the wholesaler.¹ Despite this and other legislative changes over the past 5 years, the Department of Justice, the Federal Highway Administration (FHWA), and some terminal operators in the Northeast maintain that significant evasion continues.

Results in Brief

No reliable statistical information was available to estimate the current level of fuel tax evasion. IRS has recognized this problem and is investigating alternative methods for estimating motor fuel excise tax evasion. (See app. III.)

Although government and private officials involved in the motor fuel distribution and tax system agree that the legislative changes that have taken effect over the last 5 years have reduced some forms of motor fuel excise tax evasion, disagreements exist about the extent of the reductions. Justice, FHWA, and some terminal operators believe the changes may have narrowed the excise tax gap but that evasion remains high. Justice, for example, indicated that as much as \$1 billion in federal motor fuel excise taxes may be evaded annually. On the other hand, officials in IRS' Office of Examination Programs and representatives from other industry associations believe the changes significantly decreased the opportunities for evasion because the number of businesses authorized to purchase tax-free products has been reduced. (See app. IV.)

Because of the lack of data on the level of evasion, the effectiveness of IRS compliance programs cannot be assessed. IRS does not have national programs in place that address the tax evasion schemes that proliferated in the mid-1980s, but several initiatives are under way. IRS is working with FHWA and selected states to determine whether joint enforcement efforts can improve compliance with motor fuel excise taxes. In connection with this effort, IRS is also developing a database that will include information on all firms authorized to deal in tax-free motor fuels.² The database will be used by IRS and states in examining compliance. It will also be used by terminal operators in determining whether firms they do business with are properly registered with IRS and thus eligible to purchase fuels tax-free. (See app. V.)

¹Before this change, diesel fuel excise taxes generally were collected at the retail pump when diesel was dispensed into a vehicle to be used on the highway.

²IRS expected the database to be available for all users some time in 1992.

The applicability of states' compliance initiatives to federal motor fuel excise tax enforcement is difficult to gauge because of differences between state and federal taxes and collection systems. Two of the changes IRS is currently considering—to recommend to Congress moving the gasoline collection point in the distribution system to further reduce the number of companies involved and setting up a database to track motor fuel sales transactions—have been used by New York and Florida, respectively, to combat motor fuel tax evasion. A discussion of New York's experience and its federal applicability follows. (See app. VI for information on Florida's transaction database.)

Shifting the Collection Point to the Refinery Level

Moving the collection point to the refinery may improve the efficiency of tax administration and increase controls over evasion at the federal level. However, unresolved questions have been raised by the American Petroleum Institute (API) concerning competitive consequences and overall cost-effectiveness.

In 1985, after 3 years of experience with collecting from distributors—during which time state officials said evasion increased—New York changed its collection point for gasoline excise taxes. New York began collecting its excise tax when the product first entered the state, regardless of whether it was imported in bulk (ship or barge) or in smaller quantities (tanker truck).³ New York reported that motor fuel excise tax collections increased 19.6 percent the first year after this collection point change.

Moving federal taxation to a point analogous to the one used in New York (i.e., the point at which gasoline leaves the refinery for domestic fuel and to the point of entry for imported fuel⁴) might reduce the potential for evading federal gasoline excise taxes.⁵ However, before such a change is made, consideration should be given to whether the potentially higher federal excise tax collections and administrative cost savings would be

³New York State does not have any refineries. Diesel fuel cannot be taxed effectively at the refinery level because whether the diesel fuel will be used for tax-exempt purposes is not known until later in the distribution process.

⁴The Revenue Reconciliation Act of 1990 requires that gasoline be taxed upon removal from a refinery or terminal or entry into the United States unless it is transferred in bulk to a terminal. Most gasoline is transferred in bulk to terminals from refineries or upon entry into the United States. Refinery-level taxation would eliminate the exception for such transfers.

⁵An IRS task force's draft report recommended that tax collection be moved to the point at which crude oil enters the refinery. The taxation point analogous to the one used in New York is after the crude has been refined and the quantity and type of products have been determined.

greater than the overall additional cost that the industry may have to bear because of the move and the possible consequences for competitors within the industry.

Refinery-Level Collection Is Likely to Further Curb Evasion

Regardless of what the actual level of gasoline tax evasion may be, strong logical arguments suggest that refinery-level taxation would curb evasion more than the current collection scheme. Gasoline excise tax evasion may be reduced with refinery-level taxation because

- gasoline would change hands fewer times between production and taxation, resulting in larger volume transactions;
- refiners are presumed to be financially more sound and to maintain better records than other parties in the distribution chain; and
- the tax would be imposed on fewer taxpayers, thereby reducing the universe for IRS' examination efforts.

Moving the collection point to the refinery should reduce the number of taxable transactions since gasoline currently purchased at the refinery is frequently sold and resold in smaller quantities before being taxed as it leaves a storage terminal. In addition, the financial wherewithal of taxpayers and the sophistication of their records would tend to be greater since a large percentage of the tax would be collected from refiners, most of which are major U.S. companies.

The number of firms that IRS would need to oversee would likely decrease. In October 1989 congressional testimony, IRS' Deputy Commissioner provided the following information on the number of firms registered with IRS to purchase gasoline tax-free: 255 refiners; 63 importers; 293 throughputters, terminal operators, and traders; 287 blenders; and 1,309 gasohol blenders. Under refinery-level taxation, the approximately 318 refiners and importers would continue to be registered and would likely pay over 90 percent of the gasoline excise taxes when gasoline was removed from the refinery.

IRS would need to continue registering and overseeing blenders and gasohol blenders. In addition, if blenders and gasohol blenders are required to pay the full tax on the products they buy and then apply for refunds, IRS would need to devote resources to administering and enforcing this system. Currently, blenders can buy "blend stocks" tax-free

if they are registered with IRS.⁶ They would never remit taxes so long as the blend stocks were not used in gasoline. Gasohol blenders can buy gasoline at a reduced tax rate so long as they blend the gasoline with ethanol within 24 hours for sale as gasohol.

If the products sold by blenders and gasohol blenders would continue to be tax-free or tax-reduced, evasion could occur if these blenders subsequently sold their products as gasoline and collected the full amount of gasoline tax but did not remit the difference to IRS. However, blenders and gasohol blenders do not represent a large part of the gasoline market. On the basis of IRS tax collection data, gasohol represents about 6.2 percent of all gasoline sold in the United States. An industry analyst indicated that blend stock sales are far smaller than this.

In addition, the potential profits available from evading taxes on gasohol are much less than those on gasoline. Successful evasion of the federal gasoline excise tax yields 14.1 cents per gallon. However, because gasohol blenders buy gasoline tax-reduced, their potential profits are limited to the difference between the tax they pay—9.66 cents per gallon for gasohol created with ethanol—and the 14.1 cents they could collect if they sold their product as gasoline rather than gasohol. Thus, potential profits would be around 4.4 cents per gallon rather than 14.1.⁷

Competitive Disadvantages

Some industry members oppose refinery-level taxation of gasoline, arguing that it would place them at a competitive disadvantage. If a refiner is located far from its market, the refiner's customer will have to carry the additional tax-paid cost for some period of time. For example, in the Northeast, independent marketers receive some or all of their product via pipeline from Gulf Coast refiners. If the tax is collected at the refinery, these marketers would bear the cost of a carrying charge for the tax-paid gasoline until they could pass on the cost to their customers. These independent marketers may compete directly with local importers or refiners that sell their product more rapidly. Thus, the carrying charge could place independent Northeast marketers at a competitive disadvantage, which in turn might make it more difficult for Gulf Coast refiners to sell their products. Similarly, if a Gulf Coast refiner markets its own product at distant locations, it would have to bear the carrying charge

⁶Blend stocks are hydrocarbon products that can be added to gasoline to increase its volume and change its properties. However, blend stocks can also be used in the manufacture of various petrochemicals and other petroleum-related products.

⁷Potential profits for blenders using methanol to create gasohol would be about 5 cents per gallon.

for the tax-paid gasoline longer than competitors that are located closer to their markets.

API argues that these cost disadvantages would create incentives that would make the petroleum distribution system less efficient or more reliant on foreign imports. For example, increasing carrying costs for gasoline before it was marketed would create a disincentive to store gasoline, which could result in spot shortages of gasoline. The additional costs incurred during the transport of gasoline from Gulf Coast refiners to distant markets would disadvantage these refiners compared to overseas refiners whose product would not be taxed until it was unloaded from tankers or barges close to its ultimate market. However, if competitive disadvantages are insignificant, or can be ameliorated, adverse effects would likely not occur.

A study prepared for the Independent Fuel Terminal Operators Association (IFTOA), which supports moving the gasoline tax collection point to the refinery-level, concluded that the competitive disadvantage would be insignificant and would balance out nationwide. The 1987 IFTOA-sponsored study, which was updated in September 1991, estimated that the cost of carrying gasoline tax-paid would place pipeline-delivered gasoline at a 2 cent per barrel disadvantage in New York harbor compared to foreign imports.⁸ The cost disadvantage was considered minimal, compared to the price swings of 30 to 50 cents per barrel that occur daily in the gasoline market. The study concluded that the carrying charge is unlikely to significantly affect competition. The study also concluded that

- shifting the federal tax collection point to the refinery or importer will have a competitive impact only in the Northeast, especially in New England;
- the competitive stance of the domestic oil industry compared to foreign imports would be adversely affected, but this effect would be minimal because pipeline/barge shipments to the Northeast are currently more expensive than foreign supplies, thus the carrying cost of the tax would add only marginally to the current domestic disadvantage; and
- the total dollars involved in this market adjustment in the Northeast would be less than \$5 million annually.

We reviewed the methodology used in this study and found it to be sound. Further, we asked API and two federal economists with responsibilities related to the petroleum industry or excise taxation to review the study to

⁸A barrel equals 42 gallons of gasoline.

determine whether the methodology, assumptions made, or data used were flawed. API and the economists generally agreed that the study's methodology was sound. However, API disagreed with the appropriateness of the data that was used and the interpretation of the results.

API argued that the time period that should be used in calculating the carrying cost of the tax should include not only transportation time, which was used in the IFTOA-sponsored study, but also storage time before the gasoline was moved out of bulk storage at a terminal. On the basis of a 1988 API survey, API estimated that the average combined transportation and storage time for U.S.-refined gasoline is 22 days. Using this average, API calculated that the additional cost per barrel of gasoline due to moving the point of taxation to the refinery would be 4 cents rather than 2 cents as estimated in the IFTOA-sponsored study.

Moving the collection point to the refinery-level would increase all industry participants' costs for any lag time they experience between paying the tax and collecting it from the next purchaser. From a competitive standpoint, including storage time as well as transportation time may be more applicable when comparing U.S. firms to foreign competitors than when comparing them to other competitors within the United States. That is, if U.S. gasoline marketers stored gasoline in U.S. terminals in anticipation of heavy driving periods, for instance, then two competitors would be incurring similar carrying costs since both would be storing the gasoline. Their competitive costs due to the tax, therefore, would vary primarily because of differences in transportation time. However, if a marketer could obtain increased gasoline deliveries from foreign sources when demand increased, thus effectively transferring the storage requirement to the foreign supplier, such a marketer would be at an advantage compared to a competitor who had to store tax-paid gasoline in a U.S. terminal.

Thus, the differences in competitive costs that could be created by moving the point of taxation to the refinery would likely vary on average between 2 cents per barrel for U.S. competitors and 4 cents per barrel between U.S. and foreign competitors. These per barrel amounts translate into \$.0005 and \$.001 per gallon of gasoline. However, we do not know whether such cost differences could have a significant effect on competition.

The competitive consequences associated with moving the point of taxation occur among legitimate, tax-paying members of the industry. Justice and IRS officials, as well as some industry members, pointed out

that to the extent evasion occurs, legitimate firms face unfair competition from those evading taxes. Depending on how extensive evasion is in a particular market, legitimate firms could be severely disadvantaged. For example, if a tax-evading firm only evaded federal tax, tax-paying firms face a 14.1 cent per gallon disadvantage in selling gasoline.

Undesirable Incentives

As an offshoot of the competitive cost advantage argument, API representatives indicate that the carrying cost incurred by the petroleum industry would create incentives to avoid storing gasoline and to import gasoline. Reduced storage might make the industry less efficient if insufficient gasoline is stored to cope with fluctuations in demand. This situation could lead to spot shortages of fuel. To the extent that a reliance on foreign-imported gasoline is considered undesirable, the possibility of increased reliance on foreign imports would similarly be undesirable. However, because we do not know whether the estimated increased carrying costs (due to moving the point of taxation) would be a significant competitive factor, we then cannot say whether these undesirable consequences would occur or if they did, how severe they would be.

Do Gains Exceed Losses?

Using a 4 cent per barrel carrying cost for all gasoline with a refinery-level collection point, API estimates that the industry as a whole would incur \$100 million in additional cost if the collection point were moved to the refinery-level. This estimate may be high, depending on such things as whether the 4 cent per barrel estimate is correct and whether the savings to current taxpayers (from no longer having to pay the taxes to IRS) would exceed the administrative costs incurred by new taxpayers (refiners and importers) who would pay the tax.

Regardless of the specific additional cost to the industry, API's basic point is that if these additional costs are not less than the administrative savings, if any, to IRS because of the change and the additional taxes that may be realized through reduced evasion, then there would be no net gain in moving the point of collection. API combined selected FHWA gasoline usage data and Treasury tax collection data and concluded that no significant evasion seems to be occurring under the current collection system; therefore, no change to the tax collection point should be made.

As indicated earlier, we found no data to reliably estimate federal gasoline excise tax evasion levels. To the extent that the \$1-billion-and-greater estimates of motor fuel tax evasion offered by the Department of Justice

are correct, significant gasoline tax evasion may be occurring. To the extent that moving the tax collection point to the refinery-level would significantly curb this level of evasion, then a net benefit would be gained. Unfortunately, neither of these hypotheses can be proven.

An IRS Task Force Recommended Shifting the Point of Collection to Further Reduce Number of Firms

An IRS Excise Tax Task Force recognized the possible competitive consequences of moving the collection point for motor fuel taxes.⁹ In a draft report, the task force recommended that IRS study the feasibility of balancing out the relative advantages and disadvantages through adjustments to the payment timetables for industry members.

The IRS task force also recommended shifting payment of the tax to the point that crude oil is received at the refinery. The task force believed the shift could considerably decrease the number of firms that must pay these taxes, thereby reducing IRS' burden. However, some issues need to be resolved in taxing crude oil that are not presented by the option of taxing refinery output. Taxing a barrel of crude oil would entail determining on a pro rata basis the excise taxes for all products that would be produced from the barrel of crude oil. Determining the pro rata tax would be difficult because the amount of diesel, gasoline, or other products obtained from each barrel of crude oil varies by the crude's type and grade, as well as the capabilities of the refining facility. From an administrative perspective, because industry officials indicated that there are more sellers of crude oil than refiners, IRS would have more taxpaying businesses to monitor than if the tax were levied on refiners. Finally, as IRS recognized, provisions may be needed to allow credits for exempted uses, such as farming.¹⁰

Conclusions

Because of the lack of appropriate data, we could not determine if recent congressional and IRS actions to thwart the evasion of motor fuel excise taxes have been effective. Some government and private officials believe that the recent legislative changes have helped reduce some forms of federal motor fuel excise tax evasion. Others believe that although certain evasion schemes may have been reduced, evasion still remains high. Given the concern that evasion may still be a problem, IRS and FHWA officials are

⁹The task force recommendations were for internal policy development and do not represent official IRS or Treasury views.

¹⁰Similar problems exist now for tax-exempt purchases of gasoline. Taxing crude oil would extend the problem to tax-exempt diesel purchases, too.

undertaking or considering additional actions designed to further reduce the potential for evasion and to detect evaders.

Moving the collection point to reduce the number of liable firms, as has been proposed, should help minimize the potential for evasion. Refinery-level taxation bears consideration on efficiency grounds alone, since the number of taxpayers would be reduced. In addition, refinery-level taxation may also improve controls against evasion.

Industry members disagree about the desirability of such a move. A key question is whether refinery-level tax collection imposes competitive disadvantages. Reasonable attempts have been made to quantify the competitive consequences of such a move. However, it is unclear whether the resulting estimated 2 to 4 cent per barrel cost implications would have significant effects on the industry.

Matter for Congressional Consideration

We believe the potential advantages of moving the collection of gasoline excise taxes to the point at which gasoline leaves the refinery or is first imported warrant further congressional consideration. Reaching a decision on this issue is difficult. From a tax administration perspective, it would be better to collect the tax at the refinery. On the other hand, the industry raises some concerns about competitiveness that warrant consideration. We believe a piece of information critical to making a decision is the amount of the tax gap—an estimate that varies among Justice, FHWA, and IRS but for which we found no reliable supporting data. Congress should intensively explore the level of tax evasion with the agencies and the industry; if it is sufficiently high, the point of collection should be changed.

Agency Comments

We obtained informal comments from the agencies involved. Responding officials, who held responsible positions related to their agency's motor fuels excise tax-related activities, generally agreed with the information presented. Treasury, Justice, IRS, and FHWA suggested clarifications that we have included where appropriate. Treasury also said that under refinery-level taxation IRS would need to expend resources to oversee exempt uses. We more explicitly recognized this consequence.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the

date of issuance. At that time, we will provide copies of this report to the Secretary of the Treasury, the Commissioner of IRS, the Attorney General, the Federal Highway Administrator, and other interested parties. We will make copies available to others upon request.

The major contributors to this report are listed in appendix VII. Please contact me on (202) 272-7904 if you or your staffs have any questions concerning this report.

Jennie S. Stathis

Jennie S. Stathis
Director, Tax Policy and Administration Issues

Contents

Letter	1
Appendix I Background	16
Appendix II Objectives, Scope, and Methodology	21
Appendix III Total Level of Evasion Is Unknown	22
Appendix IV Effect of Legislative Changes Is Unknown	25
Appendix V IRS' Motor Fuel Tax Compliance Program	30
Appendix VI State Programs Suggest Changes in Federal Collection Strategy	33
Appendix VII Major Contributors to This Report	35
Tables	
Table IV.1: Major Motor Fuels Excise Tax Legislative Changes Since 1986	26

Contents

Table IV.2: Deposits to the Highway Account of the Federal Highway Trust Fund	27
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Figures

Figure 1: Gasoline Distribution System	2
Figure I.1: A Hypothetical Daisy Chain Evasion Scheme	19

Abbreviations

API	American Petroleum Institute
CID	Criminal Investigation Division
FHWA	Federal Highway Administration
IFTOA	Independent Fuel Terminal Operators Association
IRS	Internal Revenue Service
TRA	Tax Reform Act of 1986

Background

Motor fuel excise taxes are the principal funding source for the Federal Highway Trust Fund. This fund was established by the Highway Revenue Act of 1956 to provide financing for the interstate highway system and other federal-aid highway programs. Motor fuel excise taxes provided \$10.5 billion for the Highway Account and \$1.4 billion for the Transit Account of the Federal Highway Trust Fund in fiscal year 1990. Current federal tax rates are 14.1 cents per gallon for gasoline, 20.1 cents per gallon for diesel fuel, and lesser rates for specialized mixtures.¹

Generally, excise taxes are imposed on every gallon of fuel used to power a motor vehicle on the highway, while off-highway business uses are, as a rule, not taxed. Almost all of the gasoline consumed is taxable, but only about half of the diesel fuel used is taxable. The Internal Revenue Service (IRS) administers and enforces the federal excise taxes, and the Federal Highway Administration (FHWA) administers the Highway Account of the Federal Highway Trust Fund.

States also impose motor fuel excise taxes, which usually fund state transportation programs. However, state exemptions may differ from federal government exemptions. For example, California, Florida, and Texas all impose their gasoline excise taxes on state businesses, but these same businesses are exempt from federal gasoline excise taxes. The state taxation rates range from 7.5 to 26 cents per gallon, depending on the state and the product.

Taxpayers are required to file Form 720 (Quarterly Federal Excise Tax Return) for motor fuel excise taxes but must remit tax payments more frequently through the federal tax deposit system. For quarters beginning after March 1991, semimonthly deposits of the tax are required regardless of the amount of tax liability.² Since 1989, motor fuel excise taxpayers have been required to file Form 8743 to account for the amount of inventories, receipts, and disbursements of motor fuels during the reporting period. This form gives IRS some additional information to track quantities of fuel from one reporting period to the next; Form 720 only requires a single-line entry of the amount of excise taxes due.

¹One-tenth of 1 cent of the gasoline and diesel tax is for the Leaking Underground Storage Tank tax and 2.5 cents per gallon is dedicated to deficit reduction.

²Previously, the frequency of tax deposits depended on the amount of tax liability. Less than \$100 per month liability could be paid quarterly while more than \$2,000 per month liability required semimonthly deposits.

The distribution system for gasoline, diesel fuel, and other fuel products that can be used to power on- and off-highway vehicles is complex. For example, from the refinery to the retailer gasoline may go by rail, truck, ship, or pipeline and may pass through a terminal, a blender, a wholesaler, and a distributor. Figure 1 in the letter illustrates the gasoline distribution system.

From the inception of the federal gasoline excise tax in 1932 to the late 1950s, refiners and importers remitted the tax to IRS upon the first sale of gasoline. One effect of this system was that independent wholesalers purchased their gasoline on a tax-paid basis, while oil companies that also owned businesses down to the retail level did not have to pay the tax until much later in the distribution process. These companies could distribute the product internally on a tax-free basis, as far from the distribution chain as the retail level and only pay the tax when the gasoline was sold to the final consumer.

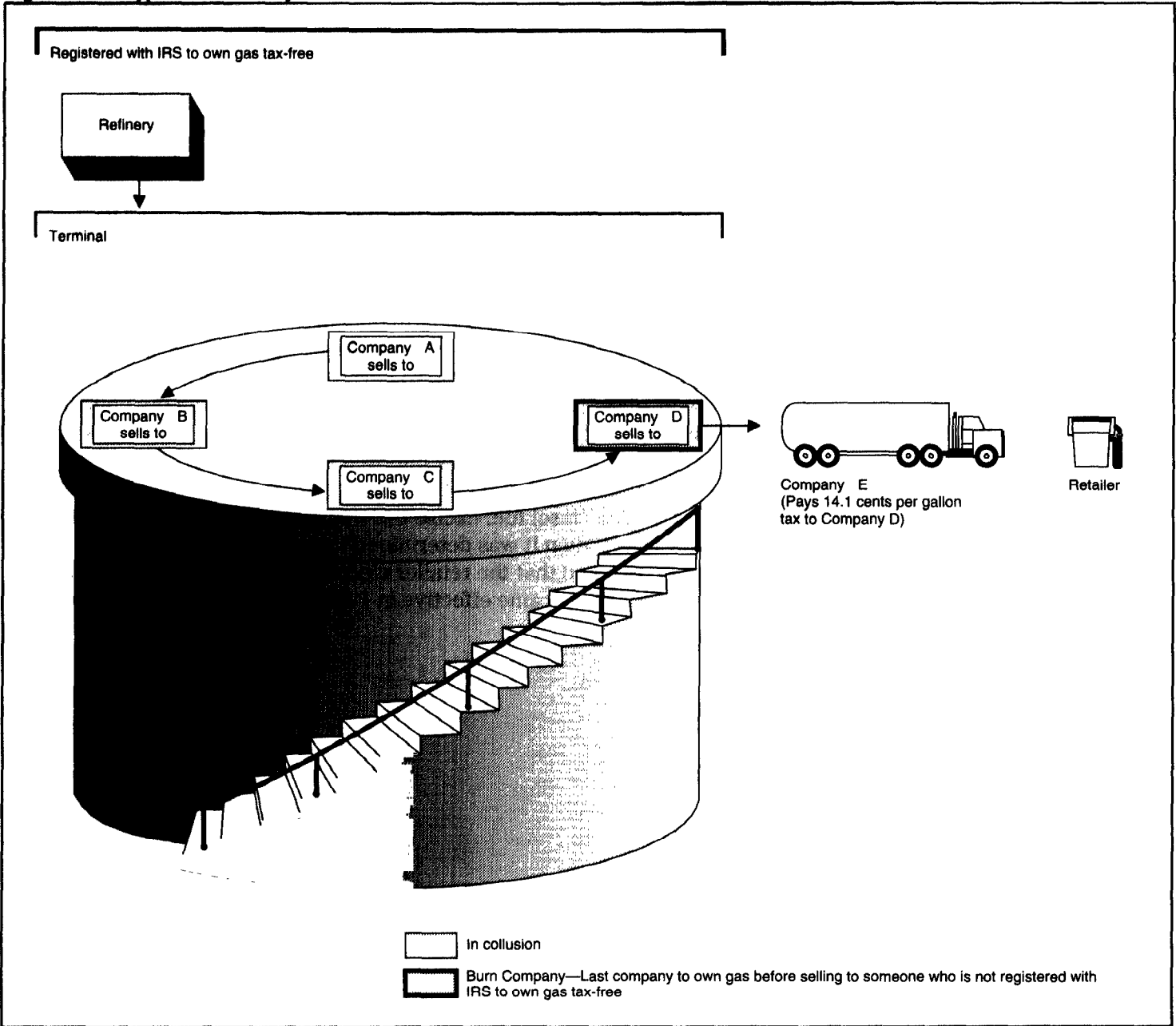
In the late 1950s, Congress concluded that this collection system was unfair to independent wholesale distributors and gave them the option to register as producers. Subsequent legislation gave the same option to compounders, blenders, and chain operators with 10 or more retail outlets. This expanded the number and types of companies that could purchase gasoline tax-free and collect the amount of the tax from retailers or motorists (when the retailer was owned by the producer).

Moving the collection of the tax on gasoline, essentially to the pump, allowed tax-free sales for certain uses, such as agricultural ones. Before this collection point change, a farmer who used fuel off-highway and was exempt from the federal excise tax would have to pay the tax and then apply to IRS for a credit. For diesel fuel, the tax was paid when the fuel was dispensed into the tank of a motor vehicle that was to be used on the highway.

In 1983, the excise tax on gasoline was increased from 4 cents per gallon to 9 cents per gallon. Thus, by not paying the federal excise tax, wholesalers or other marketers of gasoline could avoid as much as \$900 per 10,000-gallon truckload, in addition to any state taxes that could be evaded. In the mid-1980s, organized groups were involved in several criminal convictions concerning evasion of both federal and state excise taxes on motor fuels.

Several evasion schemes have been used. The most popular scheme, called a daisy chain, involved purchasing the product tax-free and passing ownership (on paper only) through several companies that were registered with IRS to own fuel tax-free. The product was then sold to an unregistered company and taxes were collected by the seller but not remitted to IRS. The repeated changes in ownership complicated IRS' enforcement of federal tax laws and increased the effort to detect evasion. When IRS tried to collect the federal excise tax, the company in the chain that had purchased tax-free and sold tax-paid (known as the burn company) often had few, if any, assets and ceased operations. IRS would be unlikely to recover lost taxes even if the evasion scheme was detected. Figure I.1 illustrates one such daisy chain scheme.

Figure I.1: A Hypothetical Daley Chain Evasion Scheme



Some of the other evasion schemes that have been used include

- buying fuel overseas, smuggling it into this country, and selling it as tax-paid to a retailer;
- claiming that domestic fuel was being exported and was therefore tax-exempt, then selling it to a U.S. retail outlet as a tax-paid product;
- writing off losses due to evaporation as an inventory loss when, in fact, the vapor was captured and sold for cash; and
- using a firm that was legitimately registered to buy fuel tax-free to purchase fuel for another business that was not qualified to buy fuel tax-free.

These compliance problems and indictments of organized groups evading federal excise taxes on motor fuel led to legislative changes that reduced the number of businesses allowed to purchase motor fuel tax-free. Effective in 1988, the Tax Reform Act (TRA) of 1986 moved tax collection to an earlier point in the motor fuel distribution process. Under TRA, the gasoline excise tax was generally imposed at the terminal, when the product was transferred into railroad tank cars or tanker trucks for further distribution.³ The diesel fuel excise tax was imposed at the wholesaler or distributor level, when it was determined that it would be sold for on-highway uses and that the retailer elected to purchase tax-paid. Other legislative changes became effective in 1989, 1990, and 1991. (See app. IV.)

³A terminal is a storage facility where large quantities of fuel arrive, generally from the refiner or importer, and are broken into smaller quantities for distribution. Sometimes the terminal is owned by a refiner, importer, or distributor; other times, these companies lease storage space or the entire terminal from the terminal operator.

Objectives, Scope, and Methodology

Our specific objectives were to determine

- whether information is available to gauge the level of noncompliance with motor fuel excise tax statutes,
- how recent legislated changes in collection points of some excise taxes have affected compliance,
- how effective IRS programs are in promoting motor fuel tax compliance, and
- which state initiatives to improve excise tax collection could be adapted to bolster federal collection efforts.

We interviewed officials at IRS headquarters, regional, and district offices; at FHWA and Department of Justice headquarters; at excise tax agencies in California, Florida, and Texas; at criminal investigative offices in New York; and at three industry associations—the American Petroleum Institute, the Petroleum Marketers Association of America, and the Independent Fuel Terminal Operators Association.

To identify information available to gauge evasion of the motor fuel excise tax, we reviewed various estimates prepared in the mid-1980s and evaluated their adaptability to the current situation. None of the officials we interviewed knew of any statistically-based estimates prepared after 1987.

We could not obtain conclusive evidence of the impact of recent legislative changes partly because of the number of legislative changes that have gone into effect over the last 5 years and are still being implemented. However, we did review the various regulatory and statutory changes that were expected to affect tax compliance. We obtained federal, state, and industry officials' opinions on what they believe the impact of these legislative changes has been or will be.

From IRS officials, we obtained documents describing IRS' efforts to increase compliance in its various cooperative projects with state officials and others.

We obtained informal agency comments on a draft of this report from the Departments of Justice, Treasury, and Transportation and IRS. Their comments have been incorporated in this report where appropriate. We did our work from October 1990 to December 1991 in accordance with generally accepted government auditing standards.

Total Level of Evasion Is Unknown

No verifiable estimate of the current level of motor fuel excise tax evasion is available. Several estimates were attempted before TRA took effect in 1988, but these estimates were flawed. One recent estimate purported to represent post-TRA conditions, but we did not have access to the data used to develop it. Moreover, there are inherent problems in developing an estimate. For example, to prepare a reasonably accurate estimate of motor fuel excise tax evasion, information is needed on the amount of (1) products domestically produced and imported, (2) taxable products consumed, and (3) products on which taxes were paid. However, no single source or combination of sources contains sufficiently reliable information of this type.

In January 1988, the Department of the Treasury estimated it was losing gasoline excise tax revenue at the rate of \$250 million a year, of which \$100 million was attributed to willful, organized evasion.¹ This estimate, the result of Treasury's piecing together federal and state evidence, was based on data that had inherent limitations and inconsistent time periods. In addition, the estimate relied on questionable assumptions. For instance, it assumed that state and federal gasoline compliance levels would be similar; this may not be a valid assumption. California and New York collect their taxes earlier in the distribution chain than the federal government does, and earlier collection may result in better compliance.

Another attempt to estimate evasion during the 1980s was also unsuccessful. An FHWA-contracted study, which focused primarily on diesel fuel excise tax evasion, was completed during 1987. However, the contractor concluded that because of flaws in the data used to estimate the number of potentially taxable gallons, it was impossible to quantify the level of evasion.

A private study, which compared trends in consumption of gasoline with excise taxes collected, estimated gasoline tax evasion levels of at least \$500 million per year for the years 1984 through 1986. However, when Treasury's Office of Tax Analysis attempted to update the study beyond 1986, it found that the methodology would produce results suggesting that IRS was theoretically collecting more excise taxes than it was owed in some years. This anomaly apparently stemmed from limitations in the data on fuel consumption, which were taken from states' reports to FHWA on their excise tax collections and from gasoline consumption data from the Energy Information Agency, Department of Energy. States sometimes use

¹Since 1988, the gasoline excise tax has increased from 9.1 to 14.1 cents per gallon and the diesel fuel tax has increased from 15.1 to 20.1 cents per gallon.

different collection points and definitions of taxable sales than the federal government; they also have evasion problems of an unknown magnitude. Energy Information Agency data are estimates based on surveys of refineries and downstream blenders, which do not coincide with the point at which most federal taxation occurs. Both the state excise tax reports and Energy Information Agency data on gasoline consumption were then compared with IRS data, which itself is imprecise because of such things as taxpayer errors in completing forms and adjustments for refunds, credits or audit assessments.

The following is a Treasury tax policy analyst's summary of the problems inherent in basing an estimate of gasoline tax evasion on a comparison of fuel use with revenues:

- No satisfactory source shows how much gasoline or diesel fuel is imported or produced. If such data were available, they would still have to be adjusted because although most gasoline is taxable, only about half of diesel fuel is taxable. Similarly, fuel consumption data do not distinguish between taxable and tax-exempt uses.
- No satisfactory source shows how much net excise taxes are collected for any defined period because (1) refunds for off-highway uses can take over a year to process and (2) audit adjustments are based on IRS examinations conducted 18 months after the quarterly return is filed and can take an additional year or more to resolve.

Given the lack of precision in available data sources, the Treasury official responsible for estimating gasoline excise tax collections believed that available statistical measures cannot measure evasion unless evasion exceeds about 10 billion gallons per year, or about \$910 million at the 9.1-cent tax rate between 1983 and 1990 and about \$1.41 billion at the current 14.1-cent rate. Further, the official believed that a consistent trend in collections would be needed to judge whether evasion is increasing or decreasing because various factors, such as changes in law or regulations, can cause collections to fluctuate. Such a trend does not exist.

A Department of Justice estimate was based on detected cases of evasion and was supposed to reflect evasion still occurring since the TRA changes in the excise tax collection points. According to Justice officials, the motor fuel excise tax gap in 1990 was about \$1 billion. This estimate was based on ongoing criminal investigations, informant sources, and a sharing of information among law enforcement officials. We could not corroborate Justice's estimate because we were not given access to information from

grand juries and ongoing federal criminal investigations. However, IRS officials we interviewed were skeptical about this estimate because they suspected it was based on cases generally located in the northeastern United States and may have covered periods before TRA changed the collection points. Furthermore, assuming that Justice investigates the more serious evasion cases with the biggest dollar potential, we believe that its estimate may be inflated because it would be based on the worst offenders and would not represent a good cross section of the universe of all motor fuel excise taxpayers.

Similarly, as part of the Joint Federal/State Motor Fuel Tax Compliance Project (see app. V), FHWA hopes to compile improved tax evasion estimates based on actual tax losses uncovered by audits and criminal investigations. In our opinion, any projected nationwide estimates may overstate the problem if the study focuses on suspected evaders rather than on a stratified random sample of all potential motor fuel taxpayers.

As of February 1992, FHWA was also attempting to estimate motor fuel tax evasion in response to a congressional stipulation on funding for the Joint Federal/State project. FHWA officials plan to make their estimate on the basis of information from such sources as IRS assessments, state experiences with evasion and New York's experience in moving its collection point for gasoline taxes, criminal cases, and federal experience when the collection point was moved to the terminal level.

As part of a commitment made by the Commissioner of Internal Revenue to the Subcommittee on Oversight, House Committee on Ways and Means, IRS is revisiting the issue of how to estimate the evasion level for motor fuel excise taxes. Because IRS has not been able to develop an estimate from available sources, it plans to convene individuals who are active in and knowledgeable about the motor fuel industry to (1) solicit their opinions about whether evasion continues to be a problem, (2) learn what evasion schemes are currently being used, and (3) obtain suggestions for quantifying evasion. If these individuals yield evidence of continued evasion despite changes in the collections system and if practical methods are suggested to quantify that evasion, IRS will try to estimate the degree of evasion.

Effect of Legislative Changes Is Unknown

Without reliable data on the level of evasion—either current or past—it is difficult to evaluate the effect of the legislative changes that began in the mid-1980s. Compounding this difficulty is the fact that the changes have continued up to mid-1991 and that final regulations have not been issued on some of the changes as of February 20, 1992. Under these circumstances, the opinions of knowledgeable officials are perhaps the best source of evaluation; however, their opinions differ. Some officials believe that evasion has been reduced significantly, while others believe it is still a \$1-billion-a-year business. Because the amount of actual evasion is unknown, either view could be correct.

Legislative changes, the result of compliance problems and indictments of organized groups evading federal excise taxes on motor fuels, reduced the number of companies responsible for paying the tax on motor fuels. Several pieces of legislation, ranging from TRA to the Revenue Reconciliation Act of 1990, are causing continuing changes in the federal motor fuel excise tax system. Some highlights of these legislative changes are shown in table IV.1.

**Appendix IV
Effect of Legislative Changes Is Unknown**

Table IV.1: Major Motor Fuels Excise Tax Legislative Changes Since 1986

Gasoline

1987	No legislative changes took effect.
1988	TRA moved the taxing point up in the distribution system from the wholesale level to the terminal or refinery level. This move was intended to reduce the tax administrative burden on fuels outlets and tax collection and enforcement costs for IRS. The Technical and Miscellaneous Revenue Act of 1988 permitted wholesale distributors to sell gasoline on a tax-exempt basis and to claim the refunds for sales made by them for (1) export, (2) use by state and local government, (3) use in aircraft or vessels, or (4) certain nonprofit educational organizations. This provision was intended to lessen the administrative burden of the excise tax refund procedures for exempt users.
1989	No legislative changes took effect.
1990	The Revenue Reconciliation Act of 1990 raised taxes by 5 cents per gallon to raise revenue for the Highway Trust Fund and deficit reduction.
1991	The Revenue Reconciliation Act of 1990 imposed the tax upon (1) removal from any refinery or terminal, (2) entry into the United States, or (3) sale to any unregistered person (unless there has been a prior taxable removal or entry), whether or not taxes have been previously paid. Removals or entries are not taxed for bulk transfers to terminals. A refund (without interest) may be obtained if a taxpayer establishes that the gasoline was previously taxed. This situation was intended to discourage selling of tax-paid gasoline within a terminal and collect excise tax on all fuel as it is dispensed over the terminal rack.

Diesel fuel

1987	TRA allowed a retailer to elect to buy diesel fuel tax-paid, thereby moving the excise tax liability up to the wholesale level. This change was intended to reduce the tax administrative burden on fuels outlets and tax collection and enforcement costs for IRS.
1988	The Revenue Act of 1987 mandated movement of the taxing point up in the distribution system from the retail level to the wholesale level. Also, most tax-exempt users beyond the wholesale level were required to buy fuel tax-paid, then apply for a refund. This requirement was intended to reduce opportunities to evade payment and achieve more efficient administration and collection of tax and to eliminate a competitive advantage enjoyed by vertically integrated segments of the gasoline industry.
1989	The Technical and Miscellaneous Revenue Act of 1988 reversed some of the 1987 act changes by allowing some tax-exempt motor fuel users such as farmers, off-road users, and boaters, to buy diesel tax-free. This reversal was intended to lessen the administrative burden of the excise tax refund on exempt users of diesel fuel. This action, in effect, reversed some of the 1987 act changes by allowing more entities to purchase products tax-free.
1990	The Revenue Reconciliation Act of 1990 raised taxes by 5 cents per gallon to raise revenue for the Highway Trust Fund and deficit reduction.
1991	No legislative changes took effect.

Since these changes to the collection system were made, the amount of revenue collected by IRS and turned over to the Highway Account of the Federal Highway Trust Fund does not show a consistent upward or downward trend (see table IV.2). Although there was a temporary increase in collections in 1989 for both gasoline and diesel fuel, 1990 collections fell to pre-1986 levels. The fairly dramatic increase in diesel collections in fiscal year 1989 may, according to a Treasury official, be due to (1) a one-time acceleration in collection and (2) changes in refund policies for

tax-exempt purchasers. When the tax collection point for diesel fuel was moved in April 1988, essentially from the retail to the wholesale level, collections took place earlier. In addition, the new requirement that formerly exempt purchasers of diesel fuel buy it tax-paid and apply for a refund tended to create a bulge in collections until refunds were processed. These changes may have had their greatest effect in fiscal year 1989, which began in October 1988. These collection amounts also could be explained, in part, by broader changes in the economy that affected fuel purchases as well as by changes in collection strategies, but data are not available to sort out these factors.

Table IV.2: Deposits to the Highway Account of the Federal Highway Trust Fund (Dollars in Thousands)

Fiscal year	Gasoline	Diesel
1986	\$7,801,112	\$2,452,924
1987	7,536,973	2,621,399
1988	8,086,417	2,557,282
1989	8,145,081	4,045,919
1990	7,618,486	2,896,263

Government and industry officials' opinions varied widely on the extent of the effect recent changes are having on evasion. Officials from IRS Examinations, the American Petroleum Institute, and the Petroleum Marketers Association of America (representing a majority of the companies that operate as product wholesalers and buy fuel tax-paid) said the tax gap has been narrowed. Some of these officials believed legislative changes over the last few years in the tax collection point and the parties liable to pay the tax, have substantially reduced evasion. However, they had no documentation to support their opinions.

A somewhat different view was expressed by Justice and FHWA officials and some terminal operators in the northeastern United States. Despite a lack of quantitative evidence of evasion levels, the FHWA officials and terminal operators believed that evasion was continuing, and Justice officials believed motor fuel tax evasion was at a level of \$1 billion a year. For instance, although moving the collection point for the tax earlier in the distribution system may have decreased the incidence of daisy chain evasion schemes that were occurring between the terminal and the retailer, officials believed alternative schemes are being practiced. The Justice Department based its opinion on cases currently under investigation.

The IRS Criminal Investigation Division (CID) had several post-TRA cases under investigation. The number of cases increased from 12 at the end of fiscal year 1989 to 17 at the end of fiscal year 1990 to 24 as of May 31, 1991. On the basis of discussions with law enforcement officials in the districts where gasoline and diesel fuel evasion schemes have been most common, CID officials believed that the 1988 changes did not put the hardcore bootleggers out of business. They said that these individuals merely adjusted their schemes to compensate for the changes in the tax system. For example, New York State criminal investigative officials said that the organized tax evaders moved up in the distribution chain and either own or otherwise control some terminals. Other schemes are said to involve daisy chains of companies that trade fuel within the terminal where the burn company (which may have foreign nationals as officers) has a valid registration number. The burn company may also claim that fuel is being exported and is therefore tax-exempt, then sell it to a U.S. retail outlet as a tax-paid product. CID has requested additional special agent staff years to add to the 31 currently devoted to motor fuel excise tax evasion cases.

The most recent change called for by 1990 legislation—which requires the tax to be imposed on removal from a terminal rack regardless of whether an earlier sale was tax-paid—became effective in July 1991. This legislative change was, like the others before it, designed to curb tax evasion schemes, particularly the creation of daisy chain sales schemes among companies buying and selling fuel while it is stored at the terminal.

On August 27, 1991, IRS published proposed rules implementing this change. The proposed rules would make the position holder—that is, the person who has a contract with the terminal operator for use of the terminal, or the terminal owner if the product belongs to the owner—liable for the tax imposed on gasoline removed at the terminal's rack, or distribution center. The terminal operator would be jointly and severally liable for the tax if the position holder is not registered with IRS to deal tax-free in gasoline.¹ The terminal operator can avoid liability for the tax if the operator (1) is registered with IRS to deal in gasoline tax-free; (2) obtains from the position holder a notification certificate, signed under penalties of perjury, that contains the position holder's IRS registration number; (3) does not know that any information on the certificate is false, and (4) has verified the accuracy of the notification certificate in accordance with IRS procedures.

¹If the position holder is not a gasoline registrant and the terminal operator does not follow procedures specified in the regulations, IRS may collect all or part of the tax from the terminal operator.

Until IRS finishes developing verification procedures, it is difficult to assess the potential effectiveness of these requirements. Without the regulatory provisions that make the position holder liable and the terminal owner potentially jointly and severally liable for the tax, the July 1991 change would not seem likely to curb daisy chain evasion schemes within the terminal. What would likely happen is that the last owner of the fuel in the terminal would become the burn company (as shown in figure I.1). Because months are likely to elapse before IRS might learn that taxes were not paid, those wishing to evade taxes could sell large quantities of gasoline without remitting the tax, just as evaders did in earlier evasion schemes. Electronic monitoring of taxable fuel transactions might enable IRS to more quickly detect such evasion. (See app. VI.)

By making terminal operators potentially jointly and severally liable for the tax at the time of gasoline removal from the terminal rack, the proposed regulations provide an incentive for terminal operators to assure that those who are liable for the tax are at least registered with IRS. Treasury officials believe by making position holders liable for the tax (rather than the owners of gasoline immediately before removal from the terminal rack), the proposed regulations would facilitate more timely identification of taxpayers. Officials also believe a terminal operator is likely, for the business' own purposes, to review the credit and financial resources of position holders. This review should act as an additional check on the use of burn companies to avoid tax.

Assuming that IRS develops a procedure that terminal operators can use to efficiently verify the accuracy of a company's IRS registration number, evasion could still occur if those who would evade the tax could obtain valid registration numbers and become position holders in a terminal. According to criminal investigators, those who would evade the tax have been able to obtain valid registration numbers through such means as buying small, out-of-state companies or paying a company that has a valid number for use of its number. Thus, the potential exists for evasion to continue despite the July 1991 changes. Treasury officials note that additional controls may be needed to counter this potential evasion.

IRS' Motor Fuel Tax Compliance Program

IRS does not have a national examination program directed specifically toward promoting motor fuel tax compliance. Rather, fuel tax examinations are part of the overall excise tax examination program that covers the 47 excise taxes IRS administers. Therefore, the number of fuel tax examinations depends on each district office's priorities, work load, and yield from these examinations relative to other types of excise examinations. Although it has yet to develop systems that would help it identify excise tax evaders, IRS has started several projects designed to increase compliance.

The experiences of IRS and several states in carrying out cooperative exchange projects for gasoline and diesel fuel in 1986 and 1987 provided a starting point for the current Joint Federal/State Motor Fuel Tax Compliance Project. Under this project, FHWA, IRS, and many states are embarking on a 5-year plan to improve all motor fuel excise tax compliance. The project is designed to increase motor fuel excise collections by (1) intensifying examinations, (2) identifying tax evaders by intensifying criminal investigations, and (3) deterring evasion by conducting highly publicized prosecutions.

During fiscal years 1990 and 1991, the Federal Highway Trust Fund provided nearly \$1.2 million for efforts to fight motor fuel excise tax evasion, including \$700,000 from general operating expenses. These funds were used for selected IRS activities, training course development, and initiation of regional motor fuel tax enforcement task forces centered in the lead states of New Jersey, Texas, and Indiana. Furthermore, the Intermodal Surface Transportation Efficiency Act of 1991 authorized \$5 million per year from the Federal Highway Trust Fund and \$2.5 million per year from the general fund for this program from 1992 through fiscal year 1997. FHWA officials said that in fiscal year 1992 the \$5 million was appropriated from the trust fund, but the administration declined to seek a supplemental appropriation from the general fund for the \$2.5 million authorization. Thus, fiscal year 1992 FHWA spending for motor fuels excise tax evasion will total only \$5 million rather than \$7.5 million.

As a part of this project, IRS is developing a database of taxpayers who are registered, through Form 637, and authorized to deal in tax-free products. FHWA budgeted \$300,000 to assist IRS in developing this database. The database was scheduled to be completed in June 1991 but was not completed as of February 1992. IRS now believes the system will be operational sometime later in 1992. It is expected that companies selling motor fuels will have direct access to the database to confirm that buyers

are eligible for tax-free purchases. This system will allow companies selling products tax-free to check the database to determine if the customer is properly registered with IRS.

For 1991, IRS increased examination staff years for excise tax programs by 150 to a total of 430 staff years. The additional staff were diverted from individual and corporate audits and will be used for all excise taxes. How these additional positions will be used, whether on motor fuel excise taxes or others, will not be known until reports are received from the district office directors.

In August 1990, IRS formed a Strategic Planning Excise Tax Task Force to develop a plan for excise tax administration for fiscal years 1992 through 1997. As part of the overall study, subgroups were formed to address issues for specific excise taxes applicable to market segments; one subgroup focused on motor fuel taxes. Each subgroup was charged with developing short- and long-range compliance strategies. The Strategic Planning Excise Tax Task Force has proposed a wide variety of initiatives, including the following:

- Restructure the excise tax organization to establish a single director who would be responsible for all aspects of IRS excise tax administration, including implementing new taxes, providing taxpayer services, creating and filing excise tax forms, enforcing excise taxes, and formulating legislative proposals.
- Create a national center that would gather automated information from numerous state and federal databases to use in developing compliance profiles, monitoring industry and taxpayer behavior, and targeting enforcement actions.
- Complete development of the Form 637 registration database.
- Study the feasibility of using a management information system to electronically track the purchase of tax-free excise items, including possible use of an IRS transaction card to record all tax-free transactions.
- Identify and examine, in conjunction with the Federal/State project, all motor fuel terminals to determine compliance levels.¹
- Study the feasibility of electronic filing of excise taxes.
- Create a new excise tax form solely for motor fuels that would replace the current Form 8743.
- Allow an annual versus quarterly filing of Form 720, the excise tax return.

¹IRS does not know how many motor fuel terminals there are.

- Propose legislation that would move the point of taxation for motor fuels to the receipt of crude oil at refineries or when products enter the United States.

In general, the task force report presented numerous options that may improve motor fuel excise tax administration. The last two recommendations, however, may warrant especially close study to determine their feasibility. Changing to an annual tax return for motor fuels would decrease the information available to IRS auditors and criminal investigators, unless other forms of reporting were required. Many states require or are considering requiring detailed monthly reports that can be used to better track the flow of fuels to determine where evasion may be occurring. Information reported to IRS on the quarterly Form 720 and the associated Form 8743 is less detailed than that many states receive.

CID is also planning to increase its efforts in combating motor fuels excise tax evasion. Currently, CID devotes 31 staff years to motor fuels tax investigations.

State Programs Suggest Changes in Federal Collection Strategy

Although states have recently undertaken various initiatives to improve their collection of motor fuel excise taxes, no organization has collected information on these initiatives or assessed their effectiveness. Because states' motor fuel excise taxes frequently differ from the federal excise tax—at the point at which the tax is collected and in who is exempt from taxation—considerable work would be required to assess whether state initiatives could be usefully adopted by IRS. Further, in our discussions with state officials, we found that states lacked data on the evasion rates of their own motor fuel excise taxes—data that could be used to gauge the success of their recent initiatives. However, two states have made significant changes to their motor fuel excise tax collection systems that may have the potential to increase federal compliance. New York, in effect, moved its gasoline excise tax collection point to the refinery-level, as was discussed in the letter of this report, and Florida established a database that tracks all gasoline shipments in the state. A discussion of Florida's database follows.

Florida's Fuel Inventory Tracking System

Florida's computerized Inventory Tracking System is a database that tracks monthly inventories of a vendor's fuel, identifies the source of purchased fuel, and identifies the buyers of fuel. With this system, state personnel can keep track of a vendor's fuel transactions and taxes due. The system can also match a month's beginning inventory figures with the previous month's ending inventory figures. Sales data from one vendor also allows the state to check purchased quantities claimed by another vendor or customer because they are linked in the database. Third-party reports are not yet part of Florida's tracking system. However, Florida receives these reports from terminal operators and motor fuel transporters who do not own fuel but store or transport fuel for others. Currently, Florida has no plans to track diesel fuel transactions.

Florida officials believe their tracking system is a deterrent to evading gasoline excise taxes. For example, this system was used to identify a Miami vendor who was underreporting sales volume and not remitting excise taxes to the state. Although Florida officials believe the system is a useful tool, they could not document any significant increase in gasoline excise tax revenue directly attributable to it.

Various industry members and associations have supported a federal-level tracking system, often called a transactions database, for several years. They see such a system as integral to making the current collection point for gasoline excise taxes effective. Without such a system, those who

**Appendix VI
State Programs Suggest Changes in Federal
Collection Strategy**

evade taxes have little fear of being detected for at least several months. IRS has been considering the feasibility and benefit of such a system. The IRS excise tax task force also recommended that IRS study the feasibility of establishing transactions tracking.

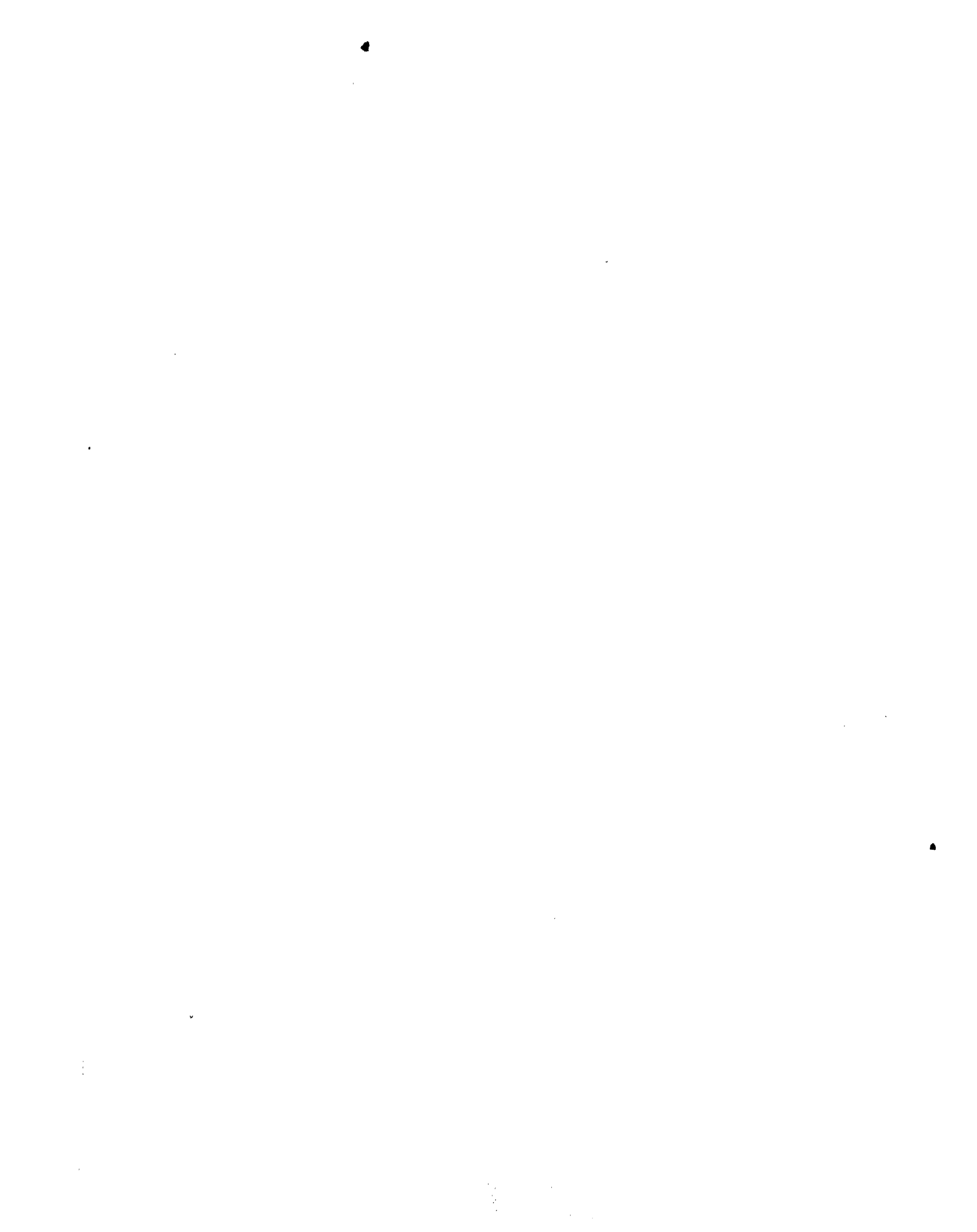
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