

Fuel Tax Fraud

Washington Dept of Licensing
Prorate and Fuel Tax Services



Prorate and Fuel Tax

Administers the:

- **Fuel Tax collection for multiple fuel and license types**
- **International Registration Plan (IRP)**
- **International Fuel Tax Agreement (IFTA)**
- **Tribal Fuel Tax Agreements/Compacts**
- **Fuel Tax Refund Program**



Full-Services Offered

- Issue licenses to fuel and interstate trucking companies
- Examine and regulate monthly, quarterly, and annual filings
- Revenue collection
- Issue refunds for exempt use
- Track fuel sales and movement
- Audit businesses
- Investigate tax fraud and issue civil penalties
- Intergovernmental coordination (state, federal, international)

Point of Taxation – Tax at the Rack

What is it?

Fuel is taxable once it "breaks the rack" meaning it is pulled from untaxed storage, and placed in the back of a truck, rail car or barge.

OR – upon importation.

Who Pays?

Fuel companies who are licensed with DOL.

They report their fuel receipts and disbursements on monthly tax returns. This tax is passed to the end consumer when they pump fuel into their vehicle at the gas station.

Gasoline 56.5 cents per gallon

Diesel 59.5 cents per gallon

The Point of Taxation





With the high cost of fuel and fuel taxes, there is constant pressure to earn more.

The product is sold in volume and completely fungible, making it a target for tax fraud and other schemes.

Cross Border and Diverted Fuel

What is it?

Unlicensed and/or improperly reported import or export activity.

Examples and Tax Implications

Diversion occurs when licensed businesses reroute fuel that is already loaded on a truck destined to be delivered in a lower tax location to a higher tax location. This fuel is not reported as an import or export to either state, or conversely no import or export takes place but is reported as such reducing tax burden.

DAISY CHAINS

What is it

Hiding the ownership of fuel through paper only companies and fake sales to avoid taxation.

Examples and Tax Implications

By setting up fake companies and obtaining licensure, organizations can attempt to confuse the ownership of the product. The last owner generally owes the tax. Often a middle transaction company is set to take the fall and disappear if an investigator or auditor begins to question transactions making it almost impossible to collect the taxes. Fuel is also often labeled as exported but it cannot be proven.

Tax Fraud Case – Daisy Chain/Exports

In September of 2011, the state was made aware of potentially fraudulent activity involving biodiesel through an email complaint.

The complainant followed up with letters detailing fraud.

The complainant continued to work directly with the Washington State Patrol and Department of Licensing by providing statements and documentation.

Tax Fraud Case – Daisy Chain/Exports

The DOL confirmed that no company mentioned in the complaint was licensed in WA except a trucking company.

WSP discovered the trucking company would bring approximately 24,000 gallons of fuel a day across the border into Washington.

The fuel was offloaded in and out of railcars here in WA parked on a spur by using a small pump towed behind a pickup truck.

These trucks were offloaded and the fuel finally sold after several trips back and forth across the border.

Tax Fraud Case – DOL – Daisy Chain/Exports



Tax Fraud Case – Daisy Chain/Exports

The real scheme:

Importation to WA of non-bio diesel via rail. Doctored paperwork selling the now “bio” diesel between three different shell companies owned by the same three people. Creating credits for production of bio diesel in both countries as well as fake exports for DOL’s purpose.

How do you validate or discover this:

Reconciliation and surveillance.

Documents were gained from the rail companies proving the amount and type of fuel imported. Documents were seized from the business and our auditors reconciled. WSP collected pictures, and other evidence.

Bootlegging

What is it?

Theft and resale.

Often blending the product with a lower grade product and selling it to unsuspecting consumers.

Examples and Tax Implications

Using stolen credit cards to buy large quantities of fuel and then selling it.

Damaging the pumps, accessing underground storage or stealing identities to gain access to fuel.

Outright theft from bulk tanks.

The reason dyed diesel exists.

Before the implementation of dyed diesel there was an estimated loss of **100's of millions of dollars** in tax revenue due to diesel bootlegging.

In New York, starting in the 1980's, the mob boss **Daniel Pagano** from the Genovese crime family used fake transactions to defraud the state out of millions of dollars.

Three other crime families joined together and set up a group called **the Association** to run scams.

The Association was brought down by the FBI and IRS.

Pagano went to jail for 105 months and was released in 2007.



Expansion & Short Loading

What is it

Expansion:

Adding a nonfuel product to a fuel product to increase the total volume

Short Loading:

When a delivery driver shorts the delivery.

Examples and Tax Implications

It is possible to add non-taxed products to taxed fuel that will expand the volume for sale to the consumer. Examples include waste cooking oil, waste fuel products, heating oil, and other fuel like products.

With short loading, a delivery to a gas station is shorted their order. The driver then sells the fuel, on the side, to another entity pocketing the profit.

Mislabeling Fuel

What is it?

Labeling the fuel as a lower taxed or untaxed product when it is not, to reduce or completely remove the tax.

Examples and Tax Implications

Labeling clear diesel as dyed diesel on importation in order to avoid taxation.

Labeling a fuel product as a non-fuel product (waste oil – heating oil) when it is gasoline or diesel to avoid taxation.

Refund Fraud

What is it

Submitting fake refund claims to gain improper refunds.

Examples and Tax Implications

By either creating fake receipts or fake invoices and dummying up a refund claim form the individual can submit the claim and potentially receive a refund from the state of taxes they never paid.

This is very common area of fraud.



Katherine Ataman

Prorate and Fuel Tax

Assistant Administrator

kataman@dol.wa.gov