



# Don't Pay That Fuel Invoice

Until you know the taxes are accurate

Fuel supplier invoices are often wrong, and sometimes very wrong. Across the industry, **bulk fuel invoices with errors of \$15 or greater occur roughly 25% of the time.** It is not uncommon to see error rates as high as 55%.<sup>1</sup> Invoice accuracy is a fuel industry problem.



As a fleet manager, fuel retailer, or convenience store owner, bulk fuel is a primary cost, with a significant impact on profitability. By ignoring the possibility of inaccurate fuel invoices, purchasing managers are putting their margins, and potentially their businesses at risk. The impact goes well beyond the gain or loss that occurs when an incorrect invoice is paid. There's significant cost in resolving disputed invoice charges. Worse, if a fuel supplier doesn't invoice fuel excise taxes correctly, auditors can discover unpaid tax liabilities years later, and require payment of accumulated taxes along with penalties and interest.

## The Indirect Fuel Tax Challenge

Getting accurate fuel volume, pricing, freight, sales tax, and excise tax together on a single invoice has always been a challenge. Tax discrepancies are a major source of invoice errors in particular. There are federal, state, county, and city taxes of multiple types, including sales, excise, and environmental taxes. Each product type, including gas, diesel, and various blends, has a unique tax treatment in each jurisdiction. Taxes will also vary based on the origin and destination locations, the transaction type, and whether buyers or sellers are licensed distributors. Any misunderstanding of these rules or rates will cause indirect tax errors, as will any error in capturing the correct fuel volume or price.

**Tax Changes** – The complexity of fuel tax is made worse by constant change. Lower fuel consumption levels are driving governments to look for creative solutions to replace declining fuel tax revenues. In 2011, there were 254 separate fuel excise tax changes in the U.S. By 2013, the number of changes had increased to 523, a 106% increase.

**Delivery Diversions** – Often errors occur when the actual fuel delivery doesn't go according to plan. This will cause the invoice, based on the original plan, to be in error. The actual delivery may entail a volume change, product change, delivery time change, and/or a diversion to another site. If a diverted load is delivered to another tax jurisdiction, such as across a county or state line, the tax treatment will be completely different from the original plan. Any invoice related to the original planned delivery or the diverted delivery location may contain errors.

**Price Volatility** – Since 2004, day-to-day fuel price swings of three cents or more rose from 6% of the time to nearly 50%. Swings of five cents or more rose from 1.6% of the time to 25%.<sup>2</sup> Fuel price volatility is the new normal. Suppliers are using complex contracts with multiple price indexes to more accurately mirror their costs and protect themselves from price swings. Prices move more every day, and even during the day, creating additional opportunities for pricing errors.

**In general, invoice inaccuracy is not born of malicious intent.** Fuel tax regulations and invoicing processes are both extremely complex, so errors are common. This same complexity causes buyers to exercise little oversight and simply pay invoices without understanding the risks involved.



**In October of 2014, Spirit Airlines announced a cut of its forecasted Q3 profit margin due to an underpayment of fuel excise taxes. On the day of the news, Spirit's stock dropped by 5.3 percent!<sup>3</sup>**

For five years, unbeknownst to them, Spirit's fuel provider had incorrectly invoiced its fuel excise taxes. The total underpayment was \$9.3 million. So even though its fuel supplier was to blame, Spirit still needed to find the cash to pay 5 years of back taxes and took a major hit to its stock valuation.

## The Impact of Inaccurate Invoicing

**Fuel Costs** – Bulk fuel buyers know they need to manage to tight margins. So while it's great to negotiate a favorable contract, ultimately the contract terms are less important than what is actually paid. Only by paying accurate invoices will the contract terms be generating the expected margins. Of course, if your product pricing is based on a cost mark-up, a systemic problem results in higher prices and could result in lost sales to lower-cost competition.

**Operational Costs** – When buyers find invoice issues, an inquiry and problem resolution process kicks off, resulting in incremental costs for both supplier and buyer. Typically, both sides need to manually recalculate the invoice, based on the contract terms, relevant price indexes, and tax rules and rates. When an invoice is in error, a credit and re-bill must be processed, resulting in extra time and effort for accounts payable and a lack of timely visibility into period margins.

**Increased Tax Risk** – Long after an invoice has been paid, a tax auditor can find a problem. So undetected errors present a significant financial risk for a fuel buyer. A systemic supplier error that goes undetected for months or years may affect many invoices. Even when a buyer has paid the invoiced taxes in good faith, if taxes have been underpaid, the tax authority will demand back taxes, penalties and interest.

## Three Strategies to Ensure Invoice Accuracy

Fortunately there are ways to mitigate the risk of inaccurate fuel invoicing. Fuel buyers need to consider the following purchasing best practices:



### 1. Monitor excise tax rules and rates

Since the fuel supplier or distributor is often responsible for collecting excise taxes, many bulk fuel purchasers just assume they'll get it right. This has proven to be a bad assumption. Since fuel excise rules and rates change constantly, you need to monitor the jurisdictions you do business in to make sure the rates you're being charged are correct.

There is no systematic way to easily track fuel excise tax regulations. Some state revenue departments try to be helpful by posting change information on their websites, but in other states, you'll need to monitor state legislative actions or news reports to try to keep up with the changes. Specialized tax consultants, professional organizations (like the Federation of Tax Administrators), and excise tax software providers such as Avalara can also help you get a handle on the changing tax rules and rates. If you decide to work with a consultant, be sure they have fuel excise tax expertise.



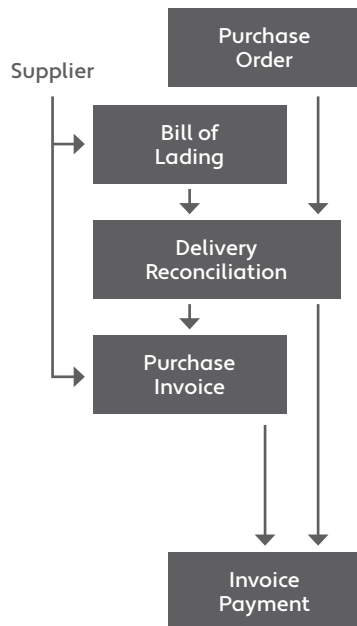
### 2. Independently price and tax fuel purchase orders

Now that you know the correct excise tax rates, you can use this information to verify your invoices. Start with your purchase order, then independently calculate the fuel price and the required taxes. Of course, this will require knowledge of the terms of your fuel contract and any index prices (e.g., OPIS, ARGUS, PLATTS, etc.) that may be used.

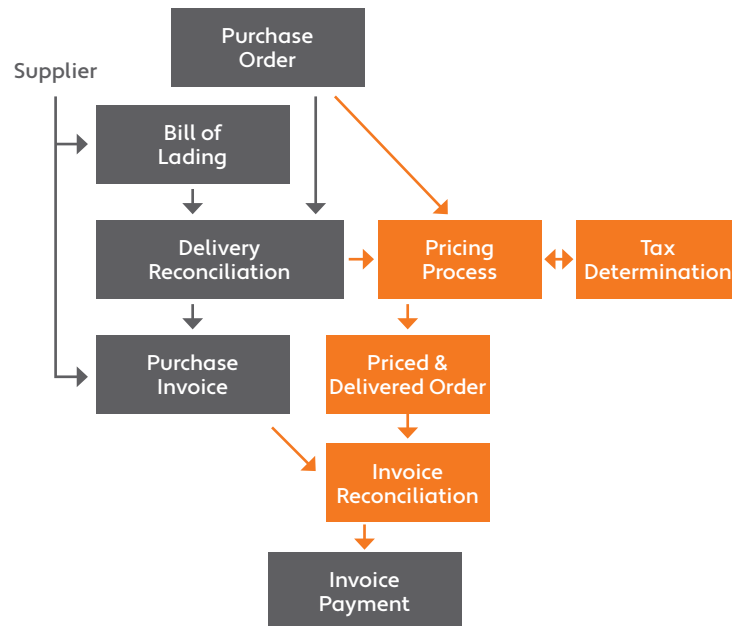
Once you get the final bill of lading from the fuel supplier, calculate the full price of the purchase order, including all taxes. Then when the supplier invoice arrives, compare this to your independently priced purchase order to be sure your invoice is accurate.

Yes, this is a lot of work, but it's the only way to eliminate the costs and risks of incorrect supplier invoices. Too many fuel buyers simply verify the delivered fuel volume and then pay the invoice. Even if you don't check every invoice, do a spot check for major changes, including: using a new fuel supplier, doing business in a new tax jurisdiction, entering into a new fuel contract, or whenever a tax rate changes.

### Typical Invoice Receipt & Payment



### Best Practice Invoice Reconciliation



### 3. Automate invoice reconciliation

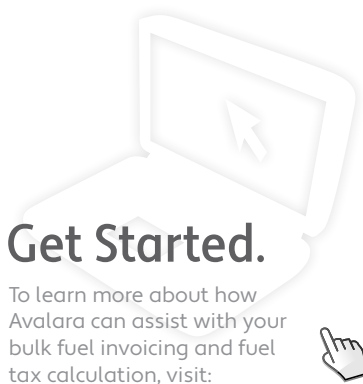
The complexity of fuel invoice calculation is one of the reasons that buyers don't check them and systemic problems are allowed to persist. But even a relatively small error that continues for five years can add up to a big tax bill (see Spirit Airlines example on page 2).

To completely ensure invoice accuracy, fuel buyers need to automate their invoice reconciliation process. Through automation, every purchase order can easily be fully priced and taxed, then compared with the supplier's invoice to ensure that only accurate invoices are paid. A number of vendors sell software or services that will provide fuel invoice reconciliation, including tax reconciliation. One additional benefit of this approach is that tax determination software used in invoice reconciliation will also track rule and rate changes to ensure tax accuracy.

## Conclusion: Only pay accurate fuel invoices

Inaccurate fuel invoicing is an expensive problem. The complexity of fuel contracts, price volatility, and tax changes make it harder than ever to generate accurate invoices. A fuel buyer who's not proactive about verifying invoice accuracy likely has a problem. When buyers don't catch problems, inaccurate invoices are paid, and tax risk increases.

When presented with an inaccurate invoice, don't pay it! A good fuel supplier will be happy to work with you to eliminate errors in their invoicing process. Think twice about continuing to do business with any supplier who is not interested in fixing errors. By proactively addressing invoicing errors, you will be building a trust relationship with your supplier and helping them eliminate problems in their process. This will ultimately help them with their other customers as well.



## Get Started.

To learn more about how Avalara can assist with your bulk fuel invoicing and fuel tax calculation, visit:

[avalara.com/products/avatax-excise](https://www.avalara.com/products/avatax-excise)

or call **877.803.9818** or email

[exciseinfo@avalara.com](mailto:exciseinfo@avalara.com)

today.

[www.avalara.com](https://www.avalara.com)

## References

<sup>1</sup> FuelQuest, Accurate Invoicing: Building Trust Between Fuel Supplier and Buyer, 28 June, 2013. Web.

<sup>2</sup> FuelQuest, Fuel Market Analysis: The New Normal, 5 September, 2012. Web.

<sup>3</sup> Associated Press, Shares of Spirit Airlines, long a Wall Street darling, fall on reduced profit-margin outlook, 8 October, 2014. Web.