



How to Achieve Fuel Tax Compliance

Increasing Automation to Reduce Costs and Avoid Errors

Downstream energy suppliers, distributors, and retailers are subject to a variety of complex fuel excise and other taxes at the federal, state, and local levels. Keeping up with all the rules, rates, and filing requirements while ensuring accurate and on-time monthly filing entails considerable operational costs. Taking shortcuts to avoid these costs can lead to tax errors and risk significant fines and penalties.



Using Technology to Optimize Fuel Tax Business Processes

Although businesses don't do their taxes with a pencil and calculator anymore, many fuel suppliers still utilize manual and error-prone, spreadsheet-based processes for tax calculation and filing. When it comes to ensuring audit readiness, critical license and exemption documents are often still kept in paper files.

There are three key business processes that have the greatest impact on tax compliance costs and audit risk for a fuel supplier:

1. Tax calculation for sales invoicing
2. Monthly excise tax filing
3. Audit preparation

In each case, we'll outline traditional process automation approaches that many fuel suppliers use today and contrast these with best practice processes and use of technology to optimize cost reduction and risk avoidance.



1. TAX CALCULATION FOR SALES INVOICING

Key Requirements

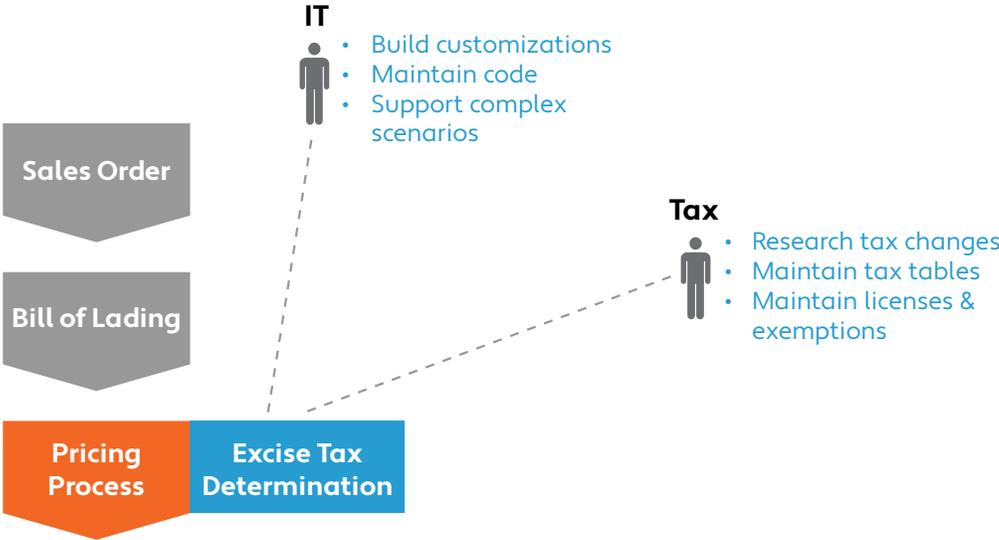
In order to accurately invoice indirect taxes, a tax determination and calculation step must be included as part of the sales invoice pricing process of the back office or ERP system. Automating tax determination makes it possible to consistently and accurately calculate a complex set of fuel taxes covering multiple jurisdictions, products and tax types. Timely cash flow requires that once a delivered bill-of-lading is available, the pricing and invoicing process can immediately generate an invoice. Accurate tax determination also requires ongoing tax research to ensure that critical data, such as tax rules, rates, and business partner licenses and exemptions, be maintained and kept up-to-date.

Traditional Automation Approaches

Most back office systems are designed to automate the calculation of simple sales & use taxes, but are not able to handle the complexity of excise tax determination. For fuel suppliers, this typically means the need to develop custom excise tax calculation code for integration into their back office pricing process or sales & use tax calculator. Building and maintaining this code to support complex and changing tax regulations is a costly and on-going IT challenge. Additionally, the burden on the tax department to research tax changes, maintain tax tables and test changes is considerable. Some back office systems are designed specifically for bulk fuel distributors and can directly support the calculation of excise taxes. This approach eliminates the need for IT customizations, but does nothing to ease the burden of the tax department to research tax rates and rules, and maintain and test tax tables.

TAX CALCULATION FOR INVOICING

Traditional Process



SALES INVOICE

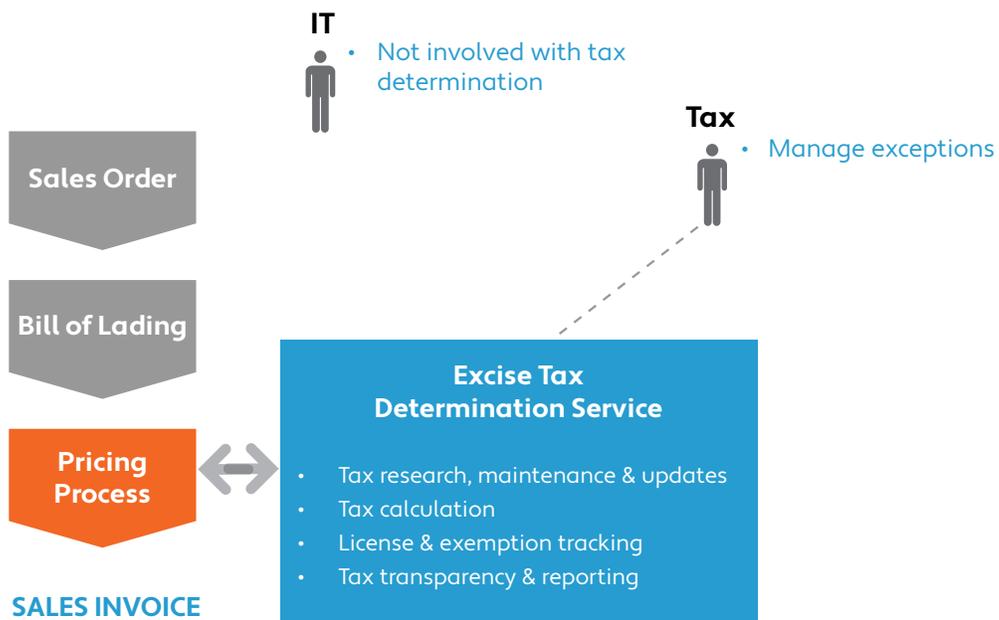
Best Practice

Many fuel suppliers are discovering that building, maintaining, and managing their own excise tax determination system is not worth their time. There are third party off-the-shelf solutions that can not only handle fuel excise taxes, but also offload the ongoing research of tax changes and tax table maintenance. These excise tax determination systems are designed to integrate with any back office system, providing the same real-time invoice generation of custom solutions without the cost or maintenance required with a traditional approach.

Additionally these systems eliminate IT involvement in tax determination and change the role of the tax department from operations to exception management. Licenses and exemption documents can also be captured automatically and used to ensure that taxes are only exempted when proper documentation is available. Unlike typical homegrown systems, these commercial excise tax systems provide tax transparency, so that it is always easy to determine exactly why a specific tax was charged or not charged.

TAX CALCULATION FOR INVOICING

Automated Process





2. MONTHLY EXCISE TAX FILING

Key Requirements

An ongoing process for tax research is a basic requirement, ensuring that any changes to tax rules, rates, forms, or filing deadlines are factored into the filing process. The first step in monthly filing is to collect all the transaction information required, perhaps from multiple back office systems. For each state or jurisdiction, these transactions need to be aggregated and normalized to the format and structure required for each schedule. In order to ensure proper exemption handling, information on business partner licenses and other tax exemptions must also be factored into this schedule determination process.

Next, schedules must be totaled and summaries transferred to the return for tax calculation. Before taxes can be filed, a management review process checks the return for errors and reconciles tax calculations with accrued tax accounts. Finally, the return can be formatted, either via paper or electronically, and filed with the jurisdiction.

Traditional Automation Approaches

In most cases, monthly filing is a semi-automated, manual process that relies heavily on homegrown, custom spreadsheets to aggregate, normalize, and format data to comply with jurisdictional requirements. These processes depend on an expert operator, who must know all about the source data, jurisdiction rules and rates, and spreadsheet macros. Typically this person must make some error-prone manual entries and overrides. If the expert becomes unavailable for any reason, tax compliance is at risk.

This spreadsheet-based, manual approach requires a major monthly time commitment, especially when there are multiple jurisdictions or multiple back office systems. If corners are cut in order to reduce costs, tax errors or missed filing deadlines will be the result.

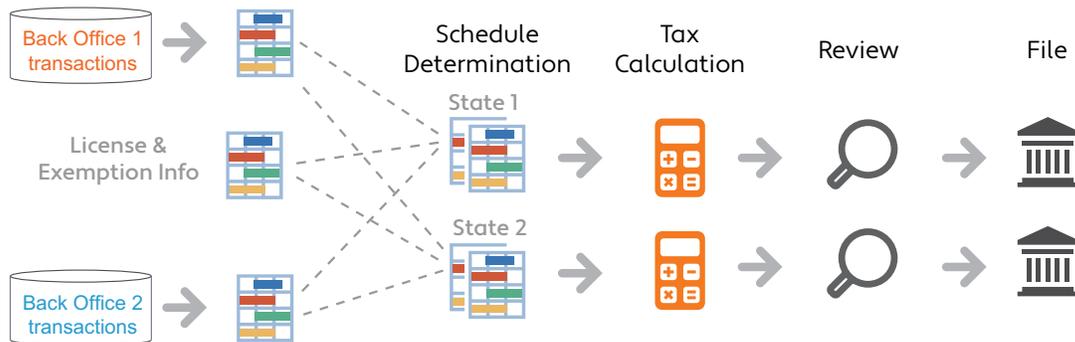
MONTHLY TAX RETURNS FILING

Traditional Process

Tax



1. Aggregate transaction from back office(s)
2. Normalize data
3. Build schedules for state(s) including license & exemptions info
4. Calculate taxes by state
5. Manage review process
6. Format (paper or electronic) and file

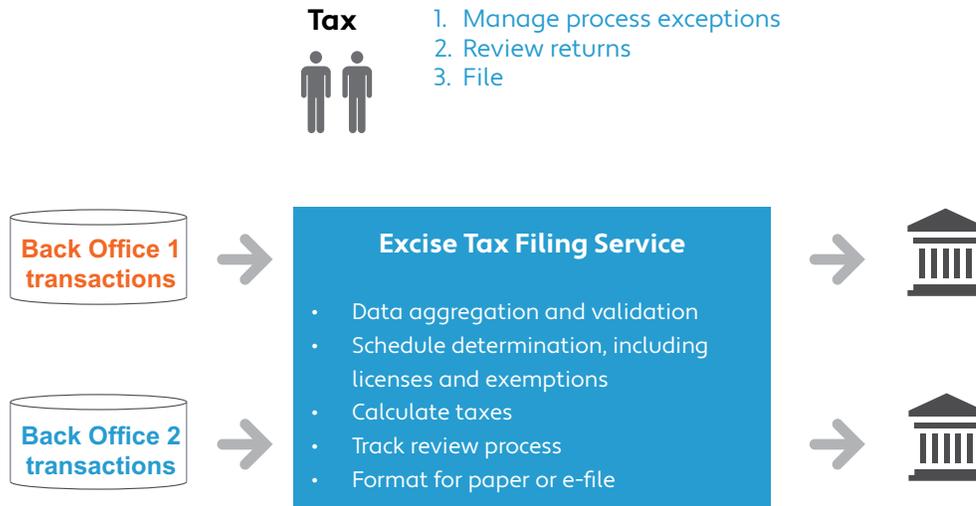


Traditional Automation Approaches

In most cases, monthly filing is a semi-automated, manual process that relies heavily on homegrown, custom spreadsheets to aggregate, normalize, and format data to comply with jurisdictional requirements. These processes depend on an expert operator, who must know all of the source data, jurisdiction rules and rates, and spreadsheet macros. Typically this person must make some error-prone manual entries and overrides. If the expert becomes unavailable for any reason, tax compliance is at risk.

MONTHLY TAX RETURNS FILING

Automated Process 



3. AUDIT PREPARATION

Key Requirements

Ensuring audit readiness requires ongoing effort and investment. Waiting until an audit notification arrives usually ensures compliance problems. The most basic requirement is to make sure the retrieval of historical transactions, schedules, returns, and amendments is easy. This information should be available for any jurisdiction, timeframe, and/or product at a moment's notice. A common audit problem is the inability to provide license or exemption documentation, so audit readiness requires a trusted indexing and retrieval system for these documents that ensures that if the exemption is allowed, there is a document to prove it. A key requirement is a process to "lock down" information, including exemption documentation, when filing. This will ensure that this information is not accidentally deleted or misplaced.

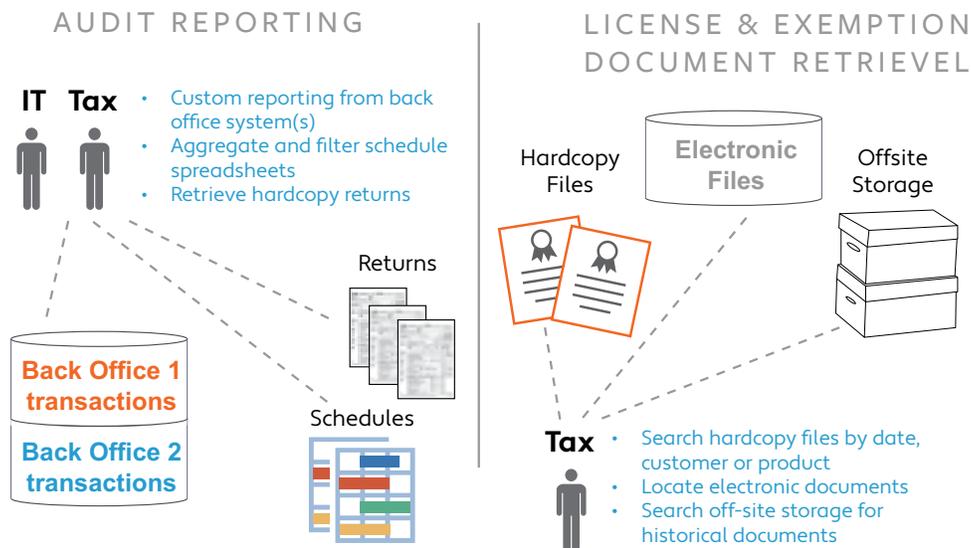
Traditional Automation Approaches

Audits are infrequent, so it is common that audit readiness is not a high priority. Typically information required for audit is stored in a combination of databases, spreadsheets, and paper files. The storage mechanisms may even evolve over time as staff and back office processes change. Often transactions are only captured by month as part of the return. This makes it difficult to pull together larger transaction sets when requested by an auditor.

Similar “mixed” approaches are typical for license and exemption document storage. They’re often stored as computer images, hardcopy files, or even e-mail attachments. Older files may even be archived off-site. Since there is no central index, even if you have the document, it can be extremely hard to locate it when required in an audit. Without centralized control and a trusted “lock down” method, it is very easy for an employee to misplace or even accidentally delete documents that may be required in a future audit.

TAX DOCUMENT MANAGEMENT

Traditional Process



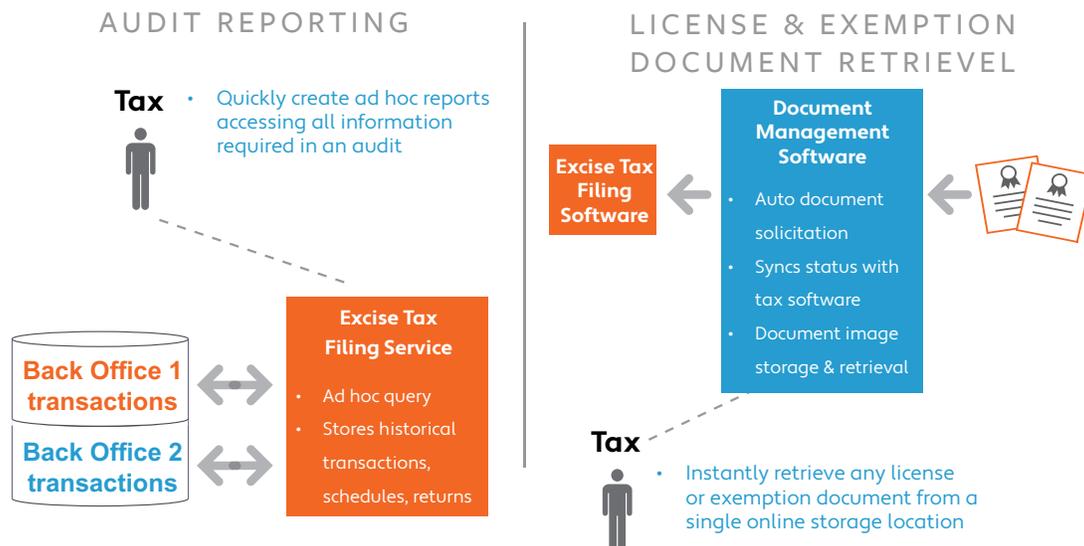
Best Practices

Optimal audit preparation requires centralized information storage with computerized indexing for easy retrieval. Excise tax filing software acts as this storage mechanism that allows for flexible ad hoc query to any transaction, schedule, or return information across a range of dates, products, or business partners. Any information your auditor requests can be produced in minutes.

To handle quick document retrieval, tax document management software acts as the centralized storage and retrieval mechanism for all license and exemption documents. By linking directly into the tax filing system, programmed controls ensure that the exemption is not allowed if the required document is not on file. Once the taxes are filed, these files are locked to ensure that they are available for a future audit. By automating the entire document lifecycle, including customer solicitation, document capture, tax filing, and storage, this software eliminates the cost of manually managing these documents. Since all documents are stored electronically and indexed to the business partner and affected transactions, any document requested during an audit can be produced instantly.

TAX DOCUMENT MANAGEMENT

Automated Process



CONCLUSION:

Use Technology to Lower Costs and Reduce Audit Liabilities

Using the right technologies to audit excise tax compliance processes can have a big impact on bulk fuel suppliers, distributors, and retailers. While spreadsheets and generic tax engines provide some flexibility, they are not optimized to handle the complex rules, rates, and forms of fuel excise taxes. Using manual or partially automated solutions for tax calculation, monthly filing or audit preparation processes can add to costs and risk tax errors and audit liabilities.

Consider tax automation software or services designed to solve the complexities of fuel excise taxes. These services monitor jurisdictions and ensure that you're using the latest rules, rates, and forms. Full automation of both tax calculation and filing eliminates manual processes and entry, resulting in the reduction of both operational costs and tax errors. Centralized tax information and document storage will provide the controls and process discipline required to ensure that you're always prepared for an audit.

What you can do?

CONTACT AVALARA! Take the next step toward automating your excise tax process.

CALL: 877-803-9818

EMAIL: exciseinfo@avalara.com

VISIT: fuel.avalara.com

About Avalara

Avalara helps businesses of all sizes achieve compliance with sales tax, VAT, GST, excise tax, and other transactional tax requirements by delivering comprehensive, automated, cloud-based solutions that are fast, accurate, and easy to use. Avalara's end-to-end suite of solutions are designed to effectively manage complicated and burdensome tax compliance obligations imposed by state, local, and other taxing authorities in the United States and internationally.

Avalara offers hundreds of pre-built connectors into leading accounting, ERP, ecommerce and other business applications.

The company processes millions of tax transactions for customers and free users every day, files hundreds of thousands of transactional tax returns per year, and manages millions of exemption certificates and other compliance related documents. A privately held company, Avalara's venture capital investors include Sageview Capital, Battery Ventures, Warburg Pincus, Arthur Ventures, and other institutional and individual investors. Avalara employs more than 750 people at its headquarters on Bainbridge Island, WA and in offices across the U.S. and in London, England and Pune, India. More information at: www.avalara.com



877-803-9818 | www.avalara.com

1100 2nd Ave Suite 300, Seattle, WA 98101