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Fueling Business for Fleets

Want to Reduce Fuel Costs? Consider Becoming a Licensed Distributor

Fuel is a major cost item for companies with fleets, and controlling that cost is a significant success driver (pun intended) for businesses. There are a number of options available to companies looking to reduce their fuel costs. Better fuel procurement and management are focus areas, but another – often unexplored one – is becoming a licensed fuel distributor.

Before we dig into the licensed distributor topic, it is important to define what a "supplier" and "distributor" are. A **Supplier** is a company that holds a position in a bulk terminal or rack selling product by the truck load, or who buys and sells bulk products in the primary supply chain. In the latter case, the company must have a Federal 637 license. A **Distributor** is a company that delivers product to customers below the rack, traditionally does not own fuel in the rack, operates its fleet in combination possibly with common carrier services, and purchases at the rack based on set volume contracts with suppliers.

Why Consider Licensed Distributorship

So why become a licensed fuel distributor? Among the many incentives, licensed distributors can take advantage of:

1. **Shrinkage allowances** – Otherwise known as a handling allowance. Some states provide relief to the distributor or supplier for the fuel lost in the transaction. This allowance is normally a deduction on the taxes owed by the distributor to the state, or a discount on the taxes owed the supplier at the rack by the state. Currently, there are shrinkage allowances for gasoline in 36 states and for diesel in 31 states. How would this help your business? For example, 1,000,000 gallons per month usage in the state of Nebraska, one of the 36 states, would yield \$166,800 cost savings per year. The same volume in Oklahoma, another one of the 36 states, would result in \$2,040 savings per year.

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- 2. Float on tax payments** – Available in all 50 states, deferred tax payments can be from 21 to 62 days allowing better use of working capital. Licensed distributors do not pay the taxes due the state or the supplier until the 20th of the following month, for example. In comparison, companies purchasing at the rack who are NOT licensed distributors must pay the supplier for the taxes based on the product payment terms, which are usually Net10. Using a conservative 8%-based time value of money calculation, a company paying taxes on 1,000,000 gallons a month would save \$36,000 in interest annually in the state of New York. An extra \$36,000 in your operating budget for some businesses is no small thing.
- 3. Rack vs. delivered pricing** – Companies paying delivered pricing (paying the fuel costs + taxes + freight) are often paying a premium. By becoming a licensed distributor, you can take advantage of lower price options across state lines; you do not have to pay origin and destination taxes associated with the cross border transactions for a non-licensed client taking title at the rack. Delivered pricing is a service provided by the Supplier or your Distributor, and you pay for this service.

- 4. Lower freight costs** – Delivered pricing often includes freight and taxes in the price quoted by the supplier of the fuel to your tanks. This is not a pass-through cost, which means you are paying extra for the service.

Together, these licensed distributor benefits can translate into significant savings.

How to Become a Licensed Distributor

The key is to work with an in-house tax expert or external consultant who understands the process intimately. There are numerous steps and varying degrees of implementation and ongoing costs including registration fees, bonding requirements (costs differ greatly and often diminish over time), and tax processing costs. We have helped many companies step through the process and have seen first-hand the benefits available.

Determine if you are a Candidate

The number one thing to gage when deciding whether or not to become a licensed distributor is your bulk fuel volume. For example, if your company uses enough fuel on a monthly basis that suppliers are willing to quote RFPs, then becoming a licensed distributor is likely a good idea. Another gage is based on the concentration of business you do within a region. If you have one region using over 4,000 gallons per day or over 1.5M gallons per year, for example, then you are a good candidate to become a licensed distributor. Other areas to examine include cross border operations or operations in states that have a high allowance rate.

Low Volume? Pool Your Gallons for Tax Savings through Outsourced Fuel Management

Now, if you do not meet volume requirements, but have bulk tanks, then you could consider outsourcing your

dispatch to a fuel management service. This would allow you to join forces with others in your position and have the outsourced service RFP your gallons similar to a CO-OP. The fuel desk then manages all your orders and invoice reconciliation for you. Fuel just shows up and you take advantage of the cost savings and can focus on your real job running a fleet.

When you are looking to reduce the number one cost for fleet operations, fuel costs, it is essential that you examine tax-related opportunities closely. Depending on your business, there might be significant, ratable cost savings available by becoming a licensed distributor. For more information on becoming a licensed distributor, email me at rlange@fuelquest.com.

About Zytax

Zytax, a wholly owned subsidiary of FuelQuest, Inc., supplies strategic software automation solutions for indirect tax determination and excise motor fuels compliance for the energy industry. Zytax solutions, the only proven commercial solutions for energy tax complexities, minimize the effort required to maintain tax compliance and ensure determination accuracy. Zytax solutions provide complete visibility across the tax organization increasing the ability to track, forecast and report tax obligations while mitigating risk and reducing fines, fees, and penalties.

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