



How to Prepare for Potential Renewable Fuel Tax Implications

Robert "Bubba" Lange
SVP of Operations
Zytax, a FuelQuest company

Bubba Lange is the Senior Vice President of Operations for the Zytax division of FuelQuest, providers of on-demand supply chain management and tax automation software and services for suppliers, distributors, fuel buyers, and traders in global downstream energy. Mr. Lange has spent over twenty years implementing global systems in addition to holding leadership positions in sales, distribution, business development, finance and transportation. A sought after SAP platinum consultant and senior project manager, Bubba specializes in pricing and taxes in downstream energy as well as the upstream oil business. Bubba holds an BBA and MBA from Sam Houston State University in Huntsville, Texas and has completed the Executive Training Program at Harvard.

According to the Renewable Fuels Association's (RFA) 2010 Outlook Report, the industry produced a record 10.6 billion gallons of ethanol in 2009, and will produce an estimated 36 billion gallons in 2022. Today, ethanol is blended in 80% of the nation's gasoline.

With ethanol firmly established and almost every state struggling from severe budget shortfalls, state governments have cast their eyes towards ethanol and other renewable fuels for new tax revenue sources. The implication is that ethanol tax credits due to expire on December 31st of this year may not renew in deference to a new set of tax regulations.

States already separately categorize renewable fuel alternatives and blended fuel tax rates. These tax rates are predicted to change and become increasingly complicated as the RFA actively works with state officials to allow for increased ethanol blending. Furthermore, states will have different interpretations on the EPA studies examining the impact of increased ethanol levels

on motor vehicle engines; this may increase demand and cause even more tax complexity for companies doing business across multiple borders.

In addition to changing tax laws, companies not familiar with doing so will have the burden of addressing state electronic filing mandates. By September 2010, Utah and Idaho will join 21 other states that mandate electronic tax filing. Today, California, Missouri, Montana, New Hampshire, Ohio, and five others offer voluntary electronic filing. Given the greater tax efficiency, potential revenue increases, operational improvements, fraud detection capabilities, and auditing advantages of mandated electronic filing, adoption by the remaining 34% of the states is inevitable.

Companies, such as distributors, wholesalers, and managed and private fleets, that pay motor fuel excise taxes are working diligently to implement or update their filing processes in anticipation of renewable fuels market growth and new government regulations. As fleets run on diesel, new blending rates and renewable fuel taxation may be of particular interest to the industry as a whole. Those who have not considered a tax strategy risk greater filing delay and stiff penalties.

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Depending on a company’s budget and available resources, executives should weigh different options in terms of achieving tax compliance. These options include:

- Manual maintenance of rate and rule changes
- Internally deployed software
- A hosted software solution
- A custom-built system.

Each option has its advantages. If the company accepts delivered pricing only and operates within few jurisdictions, it may be able to

track regulatory changes manually – as long as it has the appropriate staff and can afford their focus on such a labor intensive process. Alternately, a deployed or hosted solution, as long as it integrates with the back office and any other required systems, works well because now the vendor of choice takes on the burden of maintaining the rate and rule changes. A custom-built or home-grown solution can work, though the internal costs of maintaining the tax codes and the system itself can be exorbitant.

If third-party tax automation software is the answer, then there is much to consider. Choosing the right solution is daunting for some. Still, one thing is clear, the best solution will provide real-time, automated tax updates including rates, rules, and forms for traditional and renewable fuels. Given that there was a 400% year-over-year increase in motor fuel excise tax changes in 2009; this feature alone can save a company hundreds of personnel hours and significantly improve filing accuracy, reliability, and reporting. In addition to managing tax changes, other key requirements include:

- A common approach to electronic filing for all U.S. jurisdictions that includes EDI, XML, CSV, Excel, and proprietary formats
- Built-in query tools for audit support
- Standard and custom reporting
- Automated importing of transactions from back-office systems for determination of applicable tax returns and schedules

- Customizable workflows to automate fuel tax processes including review, approval, and event notification.

No matter what tax automation solution is adopted, innovative companies in fleet, retail, and distribution industries will achieve greater operational efficiencies, reduce audit risk, and realize short and long-term cost savings from it. Executives can then focus on their company’s core strengths and business performance while being prepared for the next generation of taxes.

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.

Five Greenway Plaza, Suite 1310
Houston, Texas 77046
713.222.5700
www.zytax.com

