



PTSA

Petroleum Transportation & Storage Association

COMPLIANCE BULLETIN

September 16, 2005

NEW IRS CLAIM PROCEDURES FOR FARMERS PURCHASING CLEAR DIESEL FOR TAX EXEMPT USE

ISSUE: The IRS has eliminated Ultimate Vendor claims for sales of clear diesel fuel to farmers.

COMPLIANCE:

- Beginning October 1, 2005, farmers must pay the federal excise tax of 24.3 cpg on clear diesel fuel and must file the IRS claim for credit or refund themselves.
- Farmers may file for a refund on IRS Form 8849 Schedule 1 or for an income tax credit on IRS Form 4136.
- The amount of refund or credit is 24.3 cents per gallon. (The invoice amount is 24.4 cpg after adding the 1/10 of a cent per gallon Leaking Underground Storage Tank trust fund tax which is not refundable).
- The minimum claim amount is \$750. If the \$750 minimum amount is not met within any given quarter, the amount may be applied and combined with the following quarter claim.
- Ultimate vendors are no longer permitted to make a federal income tax claim for clear diesel sold to farmers for a tax-exempt use.
- The IRS is currently updating claim forms that will permit more frequent claim periods for farmers.

BOTTOM LINE: Petroleum marketers will no longer be filing ultimate vendor claims of any kind for farmers after October 1, 2005. The only ultimate vendor claims petroleum marketers may make after this date is for sales to state and local governments.

SAMPLE NOTIFICATION LETTER:

Dear Customer:

The U.S. Congress recently passed, and the president signed into law, energy legislation that changes the way IRS claims are filed for clear diesel fuel sold for tax-exempt use on a farm as required by the *Code of Federal Regulations Vol. 26, Part 48.6427(1)(6)*. Previously, the IRS allowed us, as the ultimate vendor, to sell clear diesel fuel to you tax-free and file a claim for the credit or refund on the portion of the fuel used on a farm for a tax-exempt farming purpose. However, beginning October 1, 2005 we are no longer permitted by the IRS to file such claims. Instead, the law now requires you, as the ultimate purchaser, to pay the 24.3 cents per gallon federal excise tax on clear diesel fuel and file for a credit or

refund on the portion used for a tax-exempt farming purpose.

Therefore, beginning October 1, 2005 as required by federal law, all invoices for sales of clear diesel fuel will include the 24.3 cents per gallon federal motor fuel excise tax.

(NOTE: Add the 1/10 of a cent per gallon federal Leaking Underground Storage Tank tax to the 24.3 cpg federal excise tax if you wish to pass this cost along to the purchaser).

The minimum amount of any claim for refund or credit that you file with the IRS must total \$750. If you have less than \$750 in claims in any quarter, you may roll the amount over to the next quarter until the minimum claim amount is met. Claims for refunds may be made on IRS Form 8849 Schedule 1. Claims for income tax credit may be made on IRS Form 4136. Be sure to keep the following records in your files to support your claim for a refund or credit.

1. The number of gallons of taxable fuel purchased per claim period.
2. Date of the purchase
3. The name and address of the suppliers, the amount received from each supplier in the period covering the claim.
4. The number of gallons used for non-taxable use (used on a farm for a farming purpose).

Claim forms and instructions may be obtained by calling the IRS at 1 800 829-3676 or by visiting www.irs.gov.

Sincerely,