

Diesel Fuel (Special Fuel) Excise Tax

200

Petroleum Fact Sheet 200

Fact Sheet

Distributors

Minnesota's special fuel tax law requires the first licensed distributor receiving undyed diesel fuel or undyed kerosene to pay the special fuel excise tax. Minnesota's law is consistent with the federal dyeing program.

Distributors can, however, receive a credit for tax paid on the following tax-free sales of undyed diesel fuel or undyed kerosene:

- Sales of fuel for residential heating,
- Sales of fuel to the U.S. government, and
- Exports of fuel out of Minnesota for product consigned to this state.

On the above sales only, licensed distributors may claim a credit on Form PDA-49, *Special Fuel Tax Return* (attach Schedule PDA-49B). Unlicensed associate jobbers must give the credit to the master jobber to claim on his/her PDA-49.

Local government, school districts and bus companies

State, local and county government units; school districts and bus companies are required to pay the special fuel tax on any low-sulfur, dyed diesel fuel they use in *licensed* motor vehicles. (They are not allowed to use the fuel in unlicensed vehicles.)

Government units may obtain a special fuel license from the Department of Revenue that enables them to pay the tax directly to Minnesota (To pay the tax, use Form PDA-49, *Special Fuel Tax Return*, and attach Schedule PDA-49G.)

School districts and bus companies may also obtain a special fuel license but are strongly encouraged to pay the tax directly to the supplier. Suppliers then pay the tax to Minnesota. If the supplier is not licensed, the master jobber pays the tax to the state.

Retail service stations and other purchasers

Retail service stations must charge the special fuel tax on all sales of undyed diesel fuel and undyed kerosene except the following:

- Undyed diesel fuel sold for exclusive use in a truck refrigeration unit.
- Undyed kerosene sold from a blocked pump (as defined by IRS regulations) and placed in tanks not used to propel a motor vehicle.

To receive a refund of tax paid on the above sales, the retail station operator must complete Form PDR-1, *Minnesota Motor Fuel Claim for Refund*. Refund claims may be filed anytime within one year of the sale.

On all other undyed fuel sales, the ultimate user is responsible for applying for a refund if the fuel is used for a qualifying off-highway purpose.

In all cases, refund claims must be supported by original sales tickets.

Record keeping

Although it is not necessary to be licensed or file a monthly tax return, retail service stations and bulk purchasers must maintain complete records for four years. They must include purchases, sales and transfers of special fuel, end-of-month meter readings, and inventories. Retailers are liable for any gains in undyed fuel. Auditors periodically review records to ensure compliance with Minnesota and federal tax laws.

Penalties

The Minnesota penalty for misusing dyed diesel fuel in licensed motor vehicles is \$1,000 or \$10 per gallon, whichever is greater. This is consistent with federal law. Violators with repeat infractions will have their penalties multiplied by the number of violations. For example, if five violations have occurred, the fine is \$5,000 or \$50 per gallon. The dyed diesel fuel penalty is in addition to any other penalty assessed for nonpayment of taxes.

Tipline

If you suspect unlawful use of dyed diesel fuel, call the Minnesota Department of Revenue's tipline at 651-297-5195.