

January 25, 2018

We want your feedback on proposed Petroleum License Changes

The Minnesota Department of Revenue is considering changing the licensing requirements for Petroleum Distributors and Special Fuel Dealers. Please review the proposals and tell us by February 8, 2018 if you think the changes are clear enough or you have any other feedback about them.

If adopted, the changes will take effect for the next licensing period, June 2018 for Petroleum Distributors and November 2018 for Special Fuel Dealers. Please read this letter carefully to make sure you understand the proposed changes and how you can provide feedback.

Why are we proposing changes to license requirements?

Licensing and bonding requirements help ensure the state receives the taxes collected by distributors and dealers even if their business fails or becomes bankrupt. (Minnesota Statutes 296A.03, subdivision 5 and 296A.04, subdivision 2)

After a recent review of the petroleum licensing process and bonding requirements, we identified several ways to improve the system for dealers and distributors while protecting Minnesota's financial interest. These proposals will:

- Reduce the maximum bond amount needed to renew a license.
- Clarify how the required bond amount is calculated.
- Clearly indicate how to obtain an exemption from the bond requirement.

What are the proposed changes?

The department proposes four changes to Minnesota petroleum license and bonding requirements:

1. **Reduce the Required Bond Value.** We propose reducing the bond value for license renewals to three times your average monthly Motor Fuel Tax liability – two-thirds lower than the current requirement. This change brings Minnesota in line with most other states.
2. **Require Corporate Financial Statements.** Instead of *Form PDO-103*, we propose applicants seeking an exemption from the bond requirement submit an existing, audited corporate financial statement or the financial statement used to prepare their tax return, whichever is most recent.

To be exempt from the bond requirement, these statements must show the company has both:

- Current assets at least equal to current liabilities.
- Net worth at least three times its average quarterly Motor Fuel Tax liability.

This change replaces the current *Form PDO-103, Petroleum Financial Statement*. The department will also no longer accept the personal financial statements of a company's owners (unless the business is a sole proprietor).

Using the corporate financials provides:

- Clear guidelines for applicants seeking a bond exemption.
- A better reflection of the company's financial health to better-protect Minnesota against financial loss.

3. **Discontinue Use of Partial Bonds.** We propose that all renewal applicants with a bond requirement must post a bond equal to three times their average monthly tax liability. Currently some applicants can purchase a partial bond by subtracting the value of their available financial assets from the required bond amount.

Our proposal to reduce the required bond value to three times your average monthly Motor Fuel Tax liability – two-thirds lower than the current requirement – will lower the cost of bonds for everyone who is required to purchase a bond.

This change also protects Minnesota's financial interest, as a bond provides greater protection than business assets.

4. **New Applicants: Mergers and Acquisitions.** We propose that new license applicants who enter Minnesota through a merger or acquisition of an in-state company must post a bond equal to three times the acquired business's average monthly Motor Fuel Tax liability.

This change ensures the required bond amount reflects the actual tax history of the combined business, not the minimum bond required for new applicants with no tax history (\$3,000 for Petroleum Distributors and \$1,000 for Special Fuel Dealers).

These changes are consistent with the department's existing authority and requires no changes to statutes or administrative rules. *See* Minnesota Statutes 296A.03, subdivision 5 (Petroleum Distributors), 296A.04, subdivision 2 (Special Fuel Dealers), and Minnesota Rule 8125.0410, subpart 1(a).

How can I give you my feedback?

Email your feedback to us at petroleum.tax@state.mn.us by **February 8, 2018**. We'll consider feedback we receive by this date and then update licensees in February about the final changes we decide to make.

What if I have questions?

If you have any questions, please contact us.

Sincerely,

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Petroleum Taxes

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