



IRS Rules for Diesel Fuel and Gasoline Purchases

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Gasoline, diesel and certain other fuels purchased for the exclusive use of a state or local government are exempt from the federal excise taxes on those fuels \$0.244 per gallon for diesel fuel; \$0.184 per gallon for gasoline. Since your city can buy the fuel tax free, it need not request a refund.

The Omnibus Budget Reconciliation Act (P.L. 103-66), enacted in August 1993, made the collection point for the excise taxes on diesel fuel the same as the collection point for gasoline. The act also provided that diesel fuel dyed in accordance with IRS regulations may be sold at a tax-excluded price if the fuel is for a nontaxable use (e.g., the exclusive use of a state or local government).

State and local governments can purchase dyed diesel fuel (blue for high-sulfur fuel for use in off-highway vehicles and red for low-sulfur fuel for use in motor vehicles) at a price that excludes the federal excise tax. Dyed fuel may be purchased from any vendor who sells it. The vendor will post a notice stating "DYED DIESEL FUEL, NONTAXABLE USE ONLY, PENALTY FOR TAXABLE USE." This notice will appear on retail pumps, all bills, shipping paper, etc.

According to IRS rules, the only legal way to purchase undyed diesel fuel without paying taxes is to buy it from a certified vendor. The vendor alone is responsible for seeking a refund of excise taxes from the IRS. To obtain the refund, the vendor must be a "registered ultimate vendor," and the local government must give the vendor a "Model Certificate A" certificate of farming use or state use to support the vendor's claims for credit or payments under section 6427 of the Internal Revenue Code.

Local governments may purchase gasoline and diesel products from retail stations tax free provided such purchases are made through a fleet credit card or an oil company credit card that has been issued by the oil company to a governmental agency that holds an exemption permit issued by the state commissioner of revenue. The state gasoline tax rate is \$0.26 from July 1, 2019 and after; and \$0.27 from July 1, 2019 and after for diesel fuel. For current taxes, see [1]<https://www.tn.gov/revenue/taxes/motor-fuel-taxes.html> [1]. Other taxes may also apply, such as an environmental assurance fee (on all petroleum products) currently at \$0.0004 per gallon.

Anyone who illegally uses dyed diesel or gasoline fuels – fuels that have been exempted from the federal excise tax – will be severely penalized.

See Publication 510, (Rev. July 2012), Cat. No. 150141 "Excise Tax (Including Fuel Tax Credits and Refunds) <http://www.irs.gov/pub/irs-pdf/p510.pdf> [2] for the most current rates.

Links:

[1] <https://www.tn.gov/revenue/taxes/motor-fuel-taxes/due-dates-and-tax-rates.html>

[2] <http://www.irs.gov/pub/irs-pdf/p510.pdf>

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