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## **Pump up tax savings with the fuel credit**

Companies that wish to reduce their tax bills or increase their refunds shouldn't overlook the fuel tax credit. It's available for federal tax paid on fuel used for nontaxable purposes.

### **When does the federal fuel tax apply?**

The federal fuel tax, which is used to fund highway and road maintenance programs, is collected from buyers of gasoline, undyed diesel fuel and undyed kerosene. (Dyed fuels, which are limited to off-road use, are exempt from the tax.)

But purchasers of taxable fuel may use it for nontaxable purposes. For example, construction businesses often use gasoline, undyed diesel fuel or undyed kerosene to run off-road vehicles and construction equipment, such as front loaders, bulldozers, cranes, power saws, air compressors, generators and heaters.

As of this writing, a federal fuel tax holiday has been proposed. But even if it's signed into law (check with your tax advisor for the latest information), businesses can benefit from the fuel tax credit for months the holiday isn't in effect.

### **How much can you save?**

Currently, the federal tax on gasoline is \$0.184 per gallon and the federal tax on diesel fuel and kerosene is \$0.244 per gallon. Calculating the fuel tax credit is simply a matter of multiplying the number of gallons used for nontaxable purposes during the year by the applicable rate.

So, for instance, a company that uses 7,500 gallons of gasoline and 15,000 gallons of undyed diesel fuel to operate off-road vehicles and equipment is entitled to a \$5,040 credit ( $7,500 \times \$0.184$ ) + ( $15,000 \times \$0.244$ ).

This may not seem like a large number, but it can add up over the years. And remember, a tax credit reduces your tax liability dollar for dollar. That's much more valuable than a deduction, which reduces only your taxable income.

Keep in mind, though, that fuel tax credits are includable in your company's taxable income. That's because the full amount of the fuel purchases was previously deducted as business expenses, and you can't claim a deduction and a credit on the same expense.

### **How do you claim it?**

You can claim the credit by filing Form 4136, "Credit for Federal Tax Paid on Fuels," with your tax return. If you don't want to wait until the end of the year to recoup fuel taxes, you can file Form 8849, "Claim for Refund of Excise Taxes," to obtain periodic refunds.

Alternatively, if your business files Form 720, "Quarterly Federal Excise Tax Return," you can claim fuel tax credits against your excise tax liability.

### **Why pay if you don't have to?**

No one likes to pay taxes they don't owe, but if you forgo fuel tax credits that's exactly what you're doing. Given the minimal burden involved in claiming these credits — it's just a matter of tracking your nontaxable fuel uses and filing a form — there's really no reason not to do so.