



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles
2300 West Broad Street

Richard D. Holcomb
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001

May 22, 2018

Dear Stakeholders:

Thank you all for attending our May 2, 2018, Motor Vehicle Fuels Sale Tax (MVFST) stakeholder meeting. At the meeting, DMV outlined the process proposed to use for the implementation of HB 768 and SB 896 for the MVFST. As you know, the bills direct DMV to establish the guidelines for collecting the tax, with input from stakeholders. We reached consensus on the process DMV proposed and, as such, that will be our process to implement the new MVFST; however, we left that meeting with a couple of takeaways.

First, Mike O'Connor with the Virginia Petroleum, Convenience and Grocery Association (VPCGA) desired to go back and discuss the distributor/retailer margin split portion of the calculation with his membership. He has done that and confirmed that his membership approves of the approach DMV took to calculate those numbers. Second, although cost is no longer necessary for computation of the MVFST, DMV was to determine whether it would continue to collect cost data from distributors to validate the distributor/retailer margin split.

After reviewing this, DMV will continue to collect cost data going forward in the new fuels tax system that will go live in January 2019 to be used to validate the distributor margin portion of the calculation. As we discussed at the stakeholder meeting, DMV is in the process of obtaining a new fuels tax computer system that will go live in January 2019. Because these laws take effect July 1, 2018, DMV's current vendor is making changes to the current system to accommodate the conversion to a cents per gallon tax. However, it is not the best use of resources to spend time and money on making major changes to a system that will only be used for six months. In the new system, DMV will strictly define how the cost data must be reported by distributors since it is no longer necessary for the purpose of computing taxes owed.

DMV will use the originally calculated distributor margin for the first three six-month tax setting periods to allow for the collecting and analyzing of cost data under the new tax system. Validating the distributor margin cannot be done for the same six-month periods as the tax setting periods due to delays in reporting. DMV will validate distributor margins for six-month periods that are offset by three months (i.e., if the tax setting period is December to May, the distributor margin validation period will be September to February). We believe this is the best way to validate the distributor/retailer margin split. It is noteworthy that the distributor charge must change by \$.05 in order to move the cents per gallon calculations. This is because the cents-per-gallon tax is assessed to a tenth of a penny (\$0.076), and 2.1% of \$0.05 is \$0.001. Any movement in the distributor's charge less than a nickel will not result in a change of the tax amount.

Please review these points and provide any concerns back to me by May 29th. Absent the need for any changes, DMV will proceed with posting the required June 1, 2018, notification to taxpayers that the MVFST cents per gallon for July 1 through December 31 will be \$0.076 for gasoline and \$0.077 for diesel. These are the tax amounts that we shared at the stakeholder meeting. In the future, DMV will roll the MVFST calculation into a routine semiannual notification process just as is currently done for statewide fuels tax.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Mitchell", with a stylized flourish extending to the right.

David Mitchell
Deputy Commissioner