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Tax Authority

Follow-up Audit Actions on the Diesel Fuel Settlement

Abstract

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Follow-up Audit Actions on the Diesel Fuel Settlement

Background

Excise tax on fuel is a fixed tax imposed on types of fuels, such as oil, diesel, and gasoline. The excise tax is regulated by the Fuel Excise Tax Law 1958. In January 2005, the Knesset Finance Committee authorized an increase in the excise tax on diesel fuel to be introduced over four years until it was equal to the excise tax on gasoline.

To reduce the economic impact on businesses in sectors where diesel fuel is a significant component in generating revenues, a restitution mechanism was put in place aimed at providing such businesses a partial refund on their diesel expenditures (i.e. the diesel fuel settlement or the settlement).

Key figures

NIS 94 billion

revenues in 2018 from excise tax on diesel

NIS 3.59 billion

offsetting of the diesel excise for the Palestinian Authority in 2018

NIS 3.59 billion

the refund given to businesses in 2018 as part of the diesel fuel restitution settlement

NIS 5.76 billion

net state revenues in 2018 from excise tax on diesel, after deducting the restitution mechanism for the diesel fuel settlement and offsetting the excise tax for the Palestinian Authority


53,000

the number of businesses included in the diesel fuel settlement in 2018


600



the number of businesses for which the ratio between the size of the diesel refund claimed under the settlement and the turnover was unreasonable



Scope



 In 2015, the State Comptroller's Office published a report on the diesel fuel settlement (the previous report). In the current report, we present findings from the follow-up after the correcting of major flaws noted in the previous report. From March to May 2019, the State Comptroller's Office examined the actions of the Tax Authority to correct the flaws noted in the previous report on the diesel fuel settlement (the follow-up). The follow-up was conducted at the Tax Authority management offices, the diesel unit, and district income tax and VAT offices in Rehovot and Hadera.



Key Findings


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 In the previous audit, we found that refueling with an accumulator enables businesses to register the estimated amount of diesel for each vehicle and tool, including vehicles ineligible for refunds, without any supervisory mechanism. In such a situation, it is possible that excise tax is being refunded to ineligible businesses. The follow-up found that this loophole has yet to be closed.
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 The previous audit found cases in which businesses received refunds for diesel fuel based on fictitious tax receipts they submitted. The follow-up found that this loophole has yet to be closed.
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 The previous audit found that only about half of the businesses eligible for diesel fuel refunds in 2014 were included in the diesel fuel settlement and submitted an application to be included. This would seem to indicate that some businesses preferred to be excluded from the settlement so as not to expose their diesel consumption and keep their businesses from being audited. The follow-up found that any business meeting the requirements that did not submit a refund request was automatically removed by the Tax Authority from the database of businesses eligible for inclusion in the diesel settlement.
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 The previous audit found that the economic unit at the Tax Authority submitted to the VAT offices a list of about 600 businesses whose reports on diesel consumption were incompatible with the transaction volume they had claimed to the district VAT offices. It found that the VAT offices did not make use of the lists they had been given by the economic unit to check irregular reports. The follow-up found that this loophole has yet to be closed.
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 It also found that there is currently no strict requirement that tax inspectors check the files of assesseees who received the highest refunds.



The previous audit found that the Tax Authority does not conduct sufficient oversight to ensure that businesses that received manual vouchers to pay debts for excess refunds indeed paid their debts. The follow-up found that this flaw was corrected.



The previous audit found that the computerized system enabled businesses to receive diesel expense refunds for a period in which the vehicle license was not valid. The follow-up found that this flaw was corrected.

The previous audit found that the VAT offices did not follow Tax Authority guidelines: in 2013 they conducted an accounting audit on the issue of the diesel fuel settlement in only 75% of the caseload they had been given. The follow-up found that this flaw was corrected.

The previous audit found that the Tax Authority had not published guidelines for assesseees and their representatives on how to report diesel expense refunds to the income tax authorities. In the absence of such guidelines, most assesseees did not report the revenue they generated as a result of the diesel expense refunds. The follow-up found that assesseees were instructed to report the excise tax refunds they received for diesel fuel expenses using a form attached to their annual report.

The previous audit found that, in the course of the nine years in which the diesel fuel settlement was in effect, the Tax Authority did not examine the continued operation of the settlement and its impact from economic, social, and environmental aspects. The follow-up found that this flaw was, to a great extent, corrected. In March 2018, an amendment to the restitution order was published, which determined that excise refunds on diesel would gradually be phased out by the end of 2026.

Key recommendations

-  The Tax Authority must promote legislation with regard to ordinances on bookkeeping regulations, so that they include use of technological measurements as noted in the response of the Tax Authority.
-  The Tax Authority must review its guidelines for district VAT offices regarding the inclusion of business files for audit whenever there is a marked discrepancy between the business's diesel expenses according to its reports and its total turnover, or whenever there are flaws in the business's reporting on the amount of diesel it consumed.

Summary

The diesel fuel settlement was aimed at reducing harm to economic sectors where diesel fuel and vehicles are the main means of generating revenues. In 2018, the cost of the diesel fuel settlement to the Israeli economy was NIS 3.59 billion. The previous report found that the Tax Authority was not sufficiently addressing the issue of the diesel fuel settlement, was not fulfilling its objectives, and was dis-incentivizing the transition to non-polluting green fuels. The current audit found that some of the flaws were fully corrected, some were partially corrected, and some were not corrected at all.

The findings raised in the follow-up report

