

Montana Department of Transportation
Biodiesel Tax Refunds,
Special Fuels Inspection, and
Motor Fuel Tax Cooperative Agreements Report
September 4, 2024

BIODIESEL TAX REFUNDS (15-70-433)

Refunds can be requested for taxes paid on biodiesel if the biodiesel is produced entirely from ingredients produced in Montana. The requirement for biodiesel production is not being met, resulting in zero claims for refunds on taxes paid on biodiesel by any distributor or retailer.

SPECIAL FUELS INSPECTION (61-10-154)

Motor fuels tax, including the tax on special fuels (diesel), is the primary funding source for the construction, maintenance, and administration of the highway system in Montana, including the state match for nearly \$550 million in federal revenue received each year.

Special Fuels Tax generates more than \$72 million in revenue to the Highways State Special Revenue Fund. In FY24, licensed distributors reported slightly more than 114.3 million gallons* of dyed diesel fuel distributed in Montana. Without adequate enforcement, the state would be at substantial risk of fuel tax evasion, resulting in lower revenue collections, reduced investment in Montana's highway infrastructure, and limited ability to match federal-aid funds.

Untaxed diesel fuel is available in Montana for off-road use and other non-taxable activities such as government use. To distinguish untaxed diesel fuel from taxed diesel fuel, a red dye is mechanically injected into the diesel at the time the fuel is withdrawn from the terminal. Dyed diesel fuel is exempt from both Montana and federal taxes and can be purchased through petroleum suppliers or at many retail stations.

Motor Carriers Services (MCS) Inspection Activity

Montana law (MCA 61-10-154(6)(c)) allows for the inspection of motor vehicle supply tanks to ensure that dyed diesel fuel is not being consumed on Montana roadways. MDT's Motor Carriers Services (MCS) Officers routinely check for dyed diesel fuel during motor carrier safety inspections. Additionally, they may pull vehicles over specifically to check for dyed diesel fuel if probable cause exists to suspect abuse.

Civil penalties not to exceed \$1,000 for first offenses and \$5,000 for second and subsequent offenses are imposed on the driver if a concentration of dye of 2 parts per million or greater is identified through lab testing. The table below demonstrates the number of vehicles checked for dyed diesel fuel and the number of violations found.

Fiscal Year	Vehicles Inspected	First Offense (\$1,000)	Second Offense (\$5,000)
2022	18,945	18	0
2023	19,617	29	0
2024	17,064	46	0

MOTOR FUEL TAX COOPERATIVE AGREEMENTS (15-70-450)

There have been no recent negotiations, as all the agreements are valid through 2026 and beyond.