



**COMMISSIONER'S DIRECTIVE #50  
NOVEMBER 2014  
(Replaces Commissioner's Directive #50 dated January 2014)  
Effective Date: Jan. 1, 2014**

**SUBJECT:** Sales of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG)

**REFERENCES:** IC 6-3.1-34.6; IC 6-6-2.5-1

**DISCLAIMER:** Commissioner's directives are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

**SUMMARY OF CHANGES**

Among other provisions not detailed in this directive, HEA 1324-2013/HEA 1180-2014 provides for the collection and remittance of sales tax (by changing the definition of "special fuel") and the special fuel tax on natural gas used as a motor fuel. The act also provides that a transaction involving a natural gas product acquired to fuel a motor vehicle used in providing public transportation for persons or property is not exempt from the state gross retail tax for three years, ending Dec. 31, 2016. The act further provides for the imposition of the motor carrier fuel tax upon alternative fuels and natural gas products by imposing the existing rates on the diesel or gasoline gallon equivalents of the various forms of natural gas sold.

**DEFINITIONS**

"Natural gas" means compressed or liquid natural gas.

"Natural gas product" means:

- (1) A liquid natural gas (LNG) or compressed natural gas (CNG) product; or
- (2) A combination of liquefied petroleum gas and a compressed natural gas product; used in an internal combustion engine or a motor to propel any form of vehicle, machine, or mechanical contrivance.

"Alternative fuel" means a liquefied petroleum gas, not including a biodiesel fuel or biodiesel blend, used in an internal combustion engine or a motor to propel any form of vehicle, machine, or mechanical contrivance. The term includes all forms of fuel commonly or commercially known or sold as butane or propane.

“Special fuel” means all combustible gases and liquids that are:

- (1) Suitable for the generation of power in an internal combustion engine or a motor; or
- (2) Used exclusively for heating, industrial, or farm purposes other than for the operation of a motor vehicle.

Special fuel includes biodiesel and blended biodiesel (as defined in IC 6-6-2.5-1.5) and natural gas products. However, the term does not include an alternative fuel, a gasoline (as defined in IC 6-6-1.1-103); an ethanol produced, stored, or sold for the manufacture of or compounding or blending with gasoline; kerosene; and jet fuel (if the purchaser of the jet fuel has provided to the seller proof of the purchaser's federal jet fuel registration at or before the time of sale).

“Diesel gallon equivalent” means the amount of an alternative fuel or an LNG that produces the same number of British thermal units of energy as a gallon of diesel fuel.

“Gasoline gallon equivalent” means the amount of an alternative fuel or a CNG that produces the same number of British thermal units of energy as a gallon of gasoline.

### **COMPRESSED NATURAL GAS**

A special fuel supplier of CNG is defined as a “utility company” or a “third-party marketer” that provides natural gas to an entity (individual or business) via a dedicated meter that exclusively supplies natural gas to a compressor unit whose sole purpose is to create CNG.

A utility company or third-party marketer that meets the definition of a special fuel supplier for CNG must be registered and licensed as a special fuel supplier with the department, via Form FT-1. A licensing fee of \$500 is required with the FT-1 application, as well as financial records and a bond (in the amount of \$2,000 or the projected two-month tax liability, whichever is greater), as identified in IC 6-6-2.5. A retail sales tax account must be established, and the utility company or third-party marketer must be in good standing for the department to issue the special fuel supplier license to the company.

Special fuel suppliers and importers of CNG are required to calculate the gasoline gallon equivalent (GGE) of CNG therms to create a GGE measurement for CNG, which is then subject to special fuel tax and the oil inspection fee.

The conversion rate is 1.25 therms of CNG = 1 CNG GGE gallons. The calculation is number of therms of CNG divided by 1.25 = number of CNG GGE gallons.

After the CNG has been converted to CNG GGE gallons pursuant to the above calculation, the special fuel supplier or importer must then calculate the special fuel excise tax by multiplying the gallons of CNG GGE by \$.16. The special fuel supplier or importer must also calculate the oil inspection fee by multiplying the gallons of CNG GGE by \$.01.

*Example:*

Utility A records 1250 therms of CNG delivered to Company B via the dedicated CNG compressor meter.

1,250 therms / 1.25 = 1,000 CNG GGE gallons.

1,000 CNG GGE gallons multiplied by .16 = \$160.00. This is the special fuel tax due.

1,000 CNG GGE gallons multiplied by .01 = \$10.00. This is the oil inspection fee due.

Special fuel exported from Indiana is exempt from the Indiana special fuel tax and oil inspection fee. For the special fuel to be exempt, the following conditions must be met:

- The special fuel must be sold by a licensed special fuel supplier to a licensed exporter for export from Indiana to another state or country;
- A licensed exporter must provide a copy of its valid exporter license to the supplier; and
- The bill of lading must list an out-of-state destination for the fuel.

The special fuel supplier must then report all taxable and nontaxable transactions and remit the special fuel tax and oil inspection fee monthly. The payment is due no later than the 15<sup>th</sup> day of the following month, and the return is due no later than the 20<sup>th</sup> day of the following month, via Form SF-900.

An importer is required to obtain an import verification number (IVN) from the department for each bill of lading of 5,400 CNG GGE gallons or greater within 24 hours of its import. After the IVN is obtained, remittance of the special fuel tax and oil inspection fee is required within 3 business days via Form SF-IVP. An importer is required to file a monthly report due no later than the 20<sup>th</sup> day of the following month, via Form SF-900, and remit any additional tax due at that time.

#### **Application of Sales Tax to CNG Transactions**

The special fuel supplier or importer is required to report sales tax on Form ST-103MP for all transactions where an exemption certificate (e.g., Form ST-105) was not provided by the purchaser.

Exemption certificates may be provided for the following transactions:

- Sales to a retailer, wholesaler, or manufacturer for resale only; and
- Sales to a public transportation corporation to fuel a motor vehicle used to provide public transportation for persons.

**Note:** A retailer selling CNG that was exempted from sales tax upon delivery from the fuel supplier via a Form ST-105 is required to add the cost of the sales tax to the sales price of the CNG and remit the sales tax on Form ST-103MP.

#### **Application of Utility Receipts Tax to CNG Transactions**

Unless an exemption applies, sales of CNG generally are subject to the utility receipts tax (URT). However, a transaction in which a utility company or third-party marketer provides natural gas to an entity (individual or business) via a dedicated meter that exclusively meters natural gas to a compressor unit whose sole purpose is to create CNG is not subject to the URT.

## **LIQUIFIED NATURAL GAS**

Special fuel suppliers and importers of LNG are required to be licensed with the department in the manner prescribed on Form FT-1 for the respective licenses.

Special fuel suppliers and importers of LNG are required to calculate the diesel gallon equivalent (DGE) of LNG gallons to create a DGE measurement that is then subject to the special fuel tax and the oil inspection fee.

The conversion rate is 1.67 gallons of LNG = 1 LNG DGE gallon. The calculation is number of gallons of LNG divided by 1.67 = number of LNG DGE gallons.

After the gallons of LNG have been converted to LNG DGE gallons using the above calculation, special fuel suppliers and importers must then calculate the special fuel excise tax by multiplying the gallons of LNG DGE by \$.16. Special fuel suppliers and importers must also calculate the oil inspection fee by multiplying the gallons of LNG DGE by \$.01.

### *Example:*

Supplier C delivers 1,000 gallons of LNG to Company D.

$1,000 \text{ gallons of LNG} / 1.67 = 599 \text{ LNG DGE}$ .

599 LNG DGE gallons multiplied by .16 = \$95.84. This is the special fuel tax due.

599 LNG DGE gallons multiplied by .01 = \$5.99. This is the oil inspection fee due.

Special fuel exported from Indiana is exempt from the Indiana special fuel tax and oil inspection fee. For the special fuel to be exempt, the following conditions must be met:

- The special fuel must be sold by a licensed special fuel supplier to a licensed exporter for export from Indiana to another state or country;
- A licensed exporter must provide a copy of its valid exporter license to the supplier; and
- The bill of lading must list an out-of-state destination for the fuel.

The special fuel supplier must then report all taxable and nontaxable transactions and remit the special fuel tax and oil inspection fee monthly. The payment is due no later than the 15<sup>th</sup> day of the following month, and the return is due no later than the 20<sup>th</sup> day of the following month via Form SF-900.

An importer is required to obtain an import verification number from the department for each bill of lading of 5,400 gallons or greater within 24 hours of its import. After the IVN is obtained, remittance of the special fuel tax and oil inspection fee is required within 3 business days via Form SF-IVP. An importer is required to file a monthly report due no later than the 20<sup>th</sup> day of the following month, via Form SF-900, and remit any additional tax due at that time.

### **Application of Sales Tax to LNG Transactions**

Suppliers and importers are required to report sales tax on Form ST-103MP for all transactions where an exemption certificate (e.g., Form ST-105) was not provided by the purchaser.

Exemption certificates may be provided for the following transactions:

- Sales to a retailer, wholesaler, or manufacturer for resale only; and
- Sales to a public transportation corporation to fuel a motor vehicle used to provide public transportation for persons.

**Note:** A retailer selling LNG that was exempted from sales tax upon delivery from the special fuel supplier via Form ST-105 is required to add the cost of the sales tax to the sales price of the LNG and remit the sales tax on Form ST-103MP.

#### **Application of Utility Receipts Tax and Utility Services Use Tax to LNG Transactions**

Sales of natural gas by a utility company or third-party marketer to a buyer who creates LNG from natural gas (an "LNG producer") are not subject to the URT or utility services use tax (USUT), and the utility company or third-party marketer shall not collect the URT or USUT from an LNG producer. In the event the LNG producer does not have a dedicated meter that exclusively meters natural gas to a compressor used to create LNG, the LNG producer may establish the amount of natural gas converted to LNG through its internal books and records. Any natural gas that is not converted to LNG by the LNG producer is subject to the USUT, which the LNG producer shall pay directly to the department.

Unless an exemption applies, sales of LNG that is not used as a natural gas product generally are subject to the URT. Sales of LNG to be used as a natural gas product are not subject to the URT or USUT.

#### **LIQUIFIED PETROLEUM GAS OR PROPANE**

The taxability, reporting, and filing requirements related to liquefied petroleum gas (LPG) remain unchanged and should be treated the same as they were prior to the enactment of HEA 1324-2013. For more information on the proper treatment of LPG, please contact the department via email at [fetax@dor.in.gov](mailto:fetax@dor.in.gov) or via telephone at 317-615-2630.

  
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Commissioner