Indiana Department of Revenue

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General Tax Information Bulletin	#300
Subject:	Sales of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG)
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References:	IC 6-2.5-5-51; IC 6-6-2.5-1; IC 6-6-2.5-16.5; IC 6-6-2.5-22; IC 6-6-2.5-22.5; IC 6-6-2.5-28; IC 6-6-4.1-1; IC 6-6-4.1-4; IC 6-6-4.1-4.5

Replaces Bulletin #300, dated June 2022

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Summary of Changes

Aside from technical, nonsubstantive changes, this bulletin has been updated to include a new introduction section and to remove information pertaining to the Utility Receipts Tax and Utility Services Use Tax, as they were repealed by House Enrolled Act 1002 (2022), effective July 1, 2022.

Introduction

The purpose of this bulletin is to discuss the application of the special fuel tax and sales tax laws to the sale of compressed natural gas and liquid natural gas in various contexts. The bulletin also contains a historical table of special fuel tax and motor carrier surcharge rates.

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).

"Special fuel gallon" means a gallon of special fuel, a diesel gallon equivalent (in the case of a special fuel that is LNG), or a gasoline gallon equivalent (in the case of a special fuel that is CNG).

Prior to July 1, 2018, "surcharge gallon" meant (as applicable) a gallon of gasoline or special fuel (other than natural gas or an alternative fuel commonly or commercially known or sold as butane or propane), a diesel gallon equivalent of a special fuel that is liquid natural gas, or a gasoline gallon equivalent of a special fuel that is compressed natural gas or an alternative fuel commonly or commercially known or sold as butane or propane.

"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.

"Heating oil" means a special fuel that is burned in a boiler, furnace, or stove for heating or industrial processing purposes.

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 with the Indiana Department of Revenue as a special fuel supplier, via Form FT-1 (Fuel Tax License Application). 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. 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. The GGE is considered a special fuel gallon, which is then subject to special fuel tax and the oil inspection fee. The GGE was also considered a surcharge gallon, which until July 1, 2018, was then subject to the motor carrier surcharge tax.

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 special fuel gallons of CNG GGE by the applicable special fuel tax rate from the table in Section IV. The special fuel supplier or importer must also calculate the oil inspection fee by multiplying the gallons of CNG GGE by $0.01. Prior to July 1, 2018, special fuel suppliers and importers were also required to calculate the motor carrier surcharge tax by multiplying the surcharge gallons of CNG GGE by the applicable motor carrier surcharge tax rate from the table in Section IV.

Example of a transaction prior to July 1, 2017:

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.

Example of transaction on or after July 1, 2017, through June 30, 2018:

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 .26 = $260.00. This is the special fuel tax due.
1,000 CNG GGE gallons multiplied by .01 = $10.00. This is the oil inspection fee due.
1,000 CNG GGE gallons multiplied by .21 = $210.00. This is the motor carrier surcharge tax due.

Example of transaction on or after July 1, 2018, through June 30, 2019:

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 .48 = $480.00. This is the special fuel tax due.
1,000 CNG GGE gallons multiplied by .01 = $10.00. This is the oil inspection fee due.

NOTE: This example uses the rate effective from July 1, 2018, through June 30, 2019. Although the rate is subject to change each year, this example illustrates how the tax would be calculated on a going-forward basis.

Special fuel exported from Indiana is exempt from the Indiana special fuel tax, oil inspection fee, and the motor carrier surcharge tax (if applicable). 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, oil inspection fee, and motor carrier surcharge tax monthly. The payment is due no later than the 15th day of the following month, and the return is due no later than the 20th day of the following month, via Form SF-900 (Consolidated Special Fuel Monthly Tax Return).

An importer who has not previously entered into a pre-collection agreement is required to obtain an import verification number (IVN) from the department for each bill of lading within 24 hours of its import prior to importing special fuel into Indiana in vehicles with a capacity of 5,400 CNG GGE gallons or greater. After the IVN is obtained, remittance of the special fuel tax, oil inspection fee, and motor carrier surcharge tax (if applicable) is required within three business days via Form SF-IVP (Importer Verification Payment Voucher). An importer is required to file a monthly report due no later than the 20th 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 sale of special fuel is exempt from Indiana sales tax. Because CNG is a special fuel, a special fuel supplier or importer is not required to report sales tax on Form ST-103MP (Metered Pump Sales and Use Tax Return) for any CNG transactions, regardless of the intended use of the CNG.

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. The DGE is considered a special fuel gallon, which is then subject to the special fuel tax and the oil inspection fee. The DGE was also considered a surcharge gallon, which, until July 1, 2018, was then subject to the motor carrier surcharge tax.

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 special fuel gallons of LNG DGE by the applicable special fuel tax rate from the table in Section IV. Special fuel suppliers and importers must also calculate the oil inspection fee by multiplying the gallons of LNG DGE by $0.01. Prior to July 1, 2018, special fuel suppliers and importers were also required to calculate the motor carrier surcharge tax by multiplying the surcharge gallons of LNG DGE by the applicable motor carrier surcharge tax rate from the table below.

Example of a transaction prior to July 1, 2017:

Supplier C delivers 1,000 gallons of LNG to Company D.
1,000 gallons of LNG / 1.67 = 599 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.

Example of transaction on or after July 1, 2017, through June 30, 2018:

Supplier C delivers 1,000 gallons of LNG to Company D.
1,000 gallons of LNG / 1.67 = 599 LNG DGE.
599 LNG DGE gallons multiplied by .26 = $155.74. This is the special fuel tax due.
599 LNG DGE gallons multiplied by .01 = $5.99. This is the oil inspection fee due.
599 LNG DGE gallons multiplied by .21 = $125.79. This is the motor carrier surcharge tax due.

Example of transaction on or after July 1, 2018, through June 30, 2019:

Supplier C delivers 1,000 gallons of LNG to Company D.
1,000 gallons of LNG / 1.67 = 599 LNG DGE.
599 LNG DGE gallons multiplied by .48 = $287.52. This is the special fuel tax due.
599 LNG DGE gallons multiplied by .01 = $5.99. This is the oil inspection fee due.

NOTE: This example uses the rate effective from July 1, 2018, through June 30, 2019. Although the rate is subject to change each year, this example illustrates how the tax would be calculated on a going-forward basis.

Special fuel exported from Indiana is exempt from the Indiana special fuel tax, oil inspection fee, and motor carrier surcharge tax (if applicable). 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, oil inspection fee, and motor carrier surcharge tax monthly. The payment is due

no later than the 15th day of the following month, and the return is due no later than the 20th day of the following month via Form SF-900.

An importer who has not previously entered into a pre-collection agreement is required to obtain an import verification number from the department for each bill of lading within 24 hours of its import prior to importing special fuel into Indiana in vehicles with a capacity of 5,400 gallons or greater. After the IVN is obtained, remittance of the special fuel tax, oil inspection fee, and motor carrier surcharge tax (if applicable) is required within three business days via Form SF-IVP. An importer is required to file a monthly report due no later than the 20th 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

The sale of special fuel (including LNG) is exempt from Indiana sales tax, unless LNG is used as a heating oil. Therefore, except in cases where LNG is used as a heating oil, suppliers and importers are not required to report sales tax on Form ST-103MP for LNG transactions, regardless of the intended use of the LNG.

Special Fuel Tax Rate and Surcharge Tax Rate Tables

Tax Period	Special Fuel Tax Rate	Motor Carrier Surcharge Tax Rate
Prior to July 1, 2017	$0.16	Not Applicable (Collected on Carrier's Quarterly Returns)
On or after July 1, 2017 through June 30, 2018	$0.26	$0.21
On or after July 1, 2018 through June 30, 2019	$0.48	Not Applicable (Repealed)
On or after July 1, 2019 through June 30, 2020	$0.49	Not Applicable (Repealed)
On or after July 1, 2020 through June 30, 2021	$0.51	Not Applicable (Repealed)
On or after July 1, 2021 through June 30, 2022	$0.53	Not Applicable (Repealed)
On or after July 1, 2022 through June 30, 2023	$0.55	Not Applicable (Repealed)

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

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