

# Special Notice

*Intended audience: gas distribution businesses, gas manufacturers, consumers that operate private or common carriers by water or interstate or foreign commerce*

**Jan. 24, 2020**

## Compressed natural gas and liquefied natural gas used as transportation fuel

Effective July 1, 2015, [Engrossed Substitute Senate Bill \(ESSB\) 6440](#) made changes to the taxation of compressed natural gas (CNG) and liquefied natural gas (LNG) when manufactured or sold as transportation fuel.

For **renewable natural gas** see the following Special Notices: [Public Utility Districts can produce and sell renewable natural gas](#) and [Taxability of renewable natural gas](#).

### Business and Occupation (B&O) Tax

Gas distribution businesses who manufacture or sell CNG or LNG can report income under the manufacturing B&O tax classification, instead of the public utility tax (PUT) if they meet **both** of the following:

- the gas will be used as transportation fuel or for manufacturing transportation fuel
- the buyer provides a **Purchases of Natural Gas for Use as Transportation Fuel** certificate

Producing CNG or LNG for sale or uses other than transportation fuel is not a manufacturing activity for purposes of B&O tax. A business that sells CNG or LNG for use both as transportation fuel and other uses must separately report their income under the B&O tax and PUT, as appropriate.

### Retail Sales Tax

A gas distribution business that manufactures CNG/LNG for use as transportation fuel must pay retail sales tax when purchasing machinery and equipment used in the manufacturing process. However, beginning July 1, 2017, the gas distribution business may apply for a remittance (refund) from the department for the retail sales tax paid on such equipment.

The equipment must qualify as “machinery and equipment” as defined in [RCW 82.08.02565](#). A gas distribution business may apply for such a remittance no more than once per quarter, and may not apply for a remittance after June 30, 2028. The business must retain adequate records to substantiate the exemption, including: invoices, proof of tax paid, and documents describing the machinery and equipment.

Businesses that **do not** meet the definition of a gas distribution business that manufacture CNG/LNG for use as transportation fuel do not need to apply for a remittance. These businesses may use the **Manufacturer’s Sales and Use Tax Exemption Certificate** to purchase qualifying machinery and equipment if all requirements are met for the exemption.

## Use Tax - Brokered Natural Gas

Consumers of natural gas or manufactured gas, including CNG and LNG are subject to use tax ([RCW 82.12.022](#)). Beginning July 1, 2015, this tax does not apply to the use of natural gas, compressed natural gas, or liquefied natural gas if the consumer uses the gas for transportation fuel ([RCW 82.16.310](#)).

## Special information

### Sales of LNG to common carriers engaged in interstate commerce by water

**Instructions to Sellers:** Sellers of LNG are not required to collect retail sales tax from customers that are operating as private or common carriers by water in interstate or foreign commerce if they meet **both** of the following requirements:

- The customer is registered with the Department of Revenue.
- The customer provides a completed **Buyer’s Retail Sales Tax Exemption Certificate** to the seller.
  - In lieu of a **Buyer’s Retail Sales Tax Exemption Certificate**, the seller may accept a completed **Streamlined Sales Tax Exemption Certificate** that includes the buyer’s tax registration or UBI number.

Sellers are required to report a 0117 deduction for LNG used as Transportation Fuel.

**Instructions to Buyers:** Buyers entitled to this retail sales tax exemption must do one of the following:

- If the seller does not collect retail sales tax from the buyer, then the buyer must remit directly to the Department retail sales tax on all LNG consumed in this state and on ten percent of all LNG that is transported and consumed outside of this state.
- The buyer may choose to pay retail sales tax to the seller on the full amount at the time of purchase, and then request a refund on qualifying amounts directly from the department

**Note:** This retail sales tax exemption applies to purchases of liquefied natural gas only, not compressed natural gas. This exemption does not apply to purchases of LNG made on or after July 1, 2028.

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For tax assistance or to request this document in an alternate format, visit [dor.wa.gov](#) or call 360-705-6705. Teletype (TTY) users may use the Washington Relay Service by calling 711.

## Reporting Requirements

### Annual Report Required

A gas distribution business claiming a remittance of sales tax paid on qualifying machinery and equipment (M&E) must electronically file an annual report ([RCW 82.32.534](#)) to the Department by April 30th of the year following the year in which the tax incentive was used. The report is available online by logging to your account at [dor.wa.gov](#).

## Definitions

**Gas distribution business** means the business of operating a plant or system for the production or distribution for hire or sale of gas, whether manufactured or natural.

**Transportation fuel** means fuel for the generation of power to propel a motor vehicle as defined in [RCW 46.04.320](#), a vessel as defined in [RCW 88.02.310](#), or a locomotive or railroad car.

## More information

[Engrossed Substitute Senate Bill \(ESSB\) 6440](#)

[RCW 82.04.310](#); [RCW 82.04.120](#); [RCW 82.16.310](#); [RCW 82.12.022](#); [RCW 82.08.0261](#); [RCW 82.08.02565](#); [RCW 82.12.02565](#).

Call our Telephone Information Center at 360-705-6705