

Federal Tax Incentives Supporting Propane Engine Fuel Markets

Propane is becoming increasingly attractive as a cost savings opportunity for business fleet owners. The escalating cost of gasoline and diesel, the new emissions regulations for 2007 and 2010, and the requirements for ultra low sulfur diesel (ULSD) contribute to business owners reconsidering their fleet fuel choices.

The propane engine fuel market is poised for growth with the tax incentives passed in the 2005 Energy and Highway bills that took effect December 31, 2005 and October 1, 2006 respectively. These tax incentives create a significant opportunity for propane engine fuel markets as well as for all alternative fuels. The following information is a summary of the federal tax incentives available from the IRS. We recommend you visit the IRS web site directly for a complete review of each program.

ALTERNATIVE MOTOR VEHICLE CREDIT (Effective December 31, 2005 – January 1, 2011)

The vehicle tax credit for the purchase of a new qualified alternative motor vehicle (e.g., a new dedicated propane vehicle) is 50 percent of the incremental cost (the difference in purchase price between a gasoline- or diesel-fueled vehicle and a propane-powered version of the same model). An additional credit of 30 percent of the maximum allowable incremental cost may be given if the vehicle meets certain emissions standards. The credit may not exceed \$4,000 to \$32,000, with the maximum allowable credit based upon the vehicle's weight as the following table outlines:

Vehicle Gross Weight Rating (in Pounds)	Maximum Allowable Incremental Cost
Vehicle ≤ 8,500	\$5,000
8,500 < Vehicle ≤ 14,000	\$10,000
14,000 < Vehicle ≤ 26,000	\$25,000
26,000 < Vehicle	\$40,000

A new qualified alternative fuel motor vehicle, for the purposes of this section, means any motor vehicle that is only capable of operating on an alternative fuel, the original use of which commences with the taxpayer; is acquired by the taxpayer for use or lease, but not for resale; and which is made by a manufacturer **or converted with an approved EPA system**. The credit applies to vehicles that will be used predominately in the U.S. and are placed in service after December 31, 2005 and before January 1, 2011.

IRS Notice 2006-54

On June 2, 2006, the IRS released IRS Notice 2006-54, which outlined the procedures a vehicle manufacturer must use to certify that a vehicle meets the specified requirements in order to qualify for the alternative fuel vehicle credit. Most importantly, ***the Notice makes clear that new or used gasoline and diesel vehicles that are converted to propane will qualify for this credit as well.*** As long as the business that does the propane conversions has a certificate of conformity as specified under Title II of the Clean Air Act, such converted vehicles, ***whether they be new or old***, will qualify for the credit. In order for the purchaser to be able to claim the tax credit on their tax return, the manufacturer/conversion company must provide them with a certification that the vehicle

in question will qualify for the credit. IRS Notice 2006-54 specifies the information that must be included.

**Alternative Fuel Vehicle Refueling Property Credit
(Effective December 31, 2005 – December 31, 2009)**

The alternative vehicle refueling property credit allows companies to claim a 30 percent tax credit for the cost of installing a propane vehicle refueling station to be used in a trade or business of the taxpayer, or installed at the principal residence of the taxpayer. This tax credit may not exceed \$30,000. Additionally, tax credits for a residential refueling station may not exceed \$1,000.

**Volumetric Excise Tax Credit (VEETC)
(Effective October 1, 2006 – September 30, 2009)**

The gross alternative fuel tax credit is 50 cents per gallon of propane sold by the taxpayer for use as a motor fuel in a motor vehicle or motorboat. Currently, propane engine fuel is federally taxed at 13.6 cents per gallon, but for purposes of this tax credit, propane will be federally taxed at 18.3 cents per gallon.

Federal Excise Tax on Propane -- with respect to the excise tax on the sale of propane used in motor vehicles, the change in law does not change who is liable for the tax. Thus, those who have been paying the tax on various sales transactions must continue to do so. As indicated above, the rate of federal tax on propane used in motor vehicles increases from 13.6 cents/gallon to 18.3 cents/gallon effective October 1, 2006. IRS Form 720 (Quarterly Federal Excise Tax Return) must be used to report this tax. Further explanation of who is liable for the tax is provided below under the section entitled "Tax Test."

Who Qualifies for the Credit? -- in order to obtain the 50 cent/gallon credit on the propane that you have sold for use in motor vehicles you must meet the following requirements:

(1) Tax Test – you must be liable for the tax on propane sold for use or used as fuel in a motor vehicle, or you would have been liable for tax but for application of exemption.

(2) Registration Test – you must register with the IRS and be classified as an "Alternative Fueler."

In order to be so classified you need to complete and mail IRS Form 637 entitled "Application for Registration for Certain Excise Tax Activities." The IRS will then notify you when you are registered. If you already have either a Certificate of Registry or a Letter of Registration, you are grandfathered in and do not have to register immediately and thus you may start to claim the credit on your Form 720 filings; however, we recommend that you file Form 637 as everyone must be registered as an "Alternative Fueler" by July 1, 2007 in order to take the credit.

How to Claim the Credit

Once you are properly registered you may start claiming the credit. First, the 50 cent credit must be claimed as a credit against your propane or other special fuel tax liability under Section 4041 of the IRC on Form 720. On Form 720 you will report 18.3 cents per gallon in tax on Part 1 and then claim 18.3 cents of the 50 cents as a credit on Schedule C. In this manner, your net tax liability for these filings should typically be zero.

In order to receive the remainder of the 50 cent/gallon credit (31.7 cents) you must file IRS Form 4136 at the end of the taxable year. Form 4136 allows you to claim a credit against your income tax liability. If your income tax liability is less than the credit, the IRS will send you a check for the difference. In other words, this is a **refundable** credit and is due to you even if you have no further federal tax liability.

Forklifts and Airport Tugs

In some cases, where the sale of propane is exempt from tax (sale to a government or nonprofit educational organization, or off highway business use such as forklifts and airport tugs), the filing of Form 720 will not be required as no tax is owed. However, according to sources at the IRS, **these sales will be eligible to receive the 50 cent/gallon credit.**

In off highway sales, only if the retailer delivers the fuel directly into the fuel supply tank (fueling system) of the tax exempt vehicle will the retailer be able to claim the credit. Otherwise it is the tax exempt entity that receives the credit.

For more information on applying these tax credits we suggest you consult your tax attorney. Additionally, please feel free to contact the NPGA's Mike Troop at 202-466-7200 or PERC's Brian Feehan at 202-452-8975.

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The National Propane Gas Association (NPGA) is the national trade association representing the U.S. propane industry. Our membership includes small businesses and large corporations engaged in the retail marketing of propane gas and appliances; producers and wholesalers of propane equipment; manufacturers and distributors of propane gas appliances and equipment; fabricators of propane gas cylinders and tanks; and propane transporters.

The Propane Education & Research Council (PERC) is a nonprofit 501(c)6 trade organization that is authorized by the Propane Education and Research Act of 1996 (PERA), Public Law 104-284. PERC was created "to enhance consumer and employee safety and training, to provide for research and development of clean and efficient propane utilization equipment, and to inform and educate the public about safety and other issues associated with the use of propane." PERC is based in Washington, D.C., and is dedicated to promoting the safe, efficient use of propane as a preferred energy source. For more information, visit www.propanecouncil.org.