



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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LETTER RULING 2013-2

LR 2013-2. Taxability of Compressed Natural Gas and Liquefied Natural Gas under the Motor Fuel Tax Act.

You ask whether compressed natural gas (“CNG”) or liquefied natural gas (“LNG”) constitute “gasoline,” “diesel fuel,” or “liquefied petroleum gas” subject to the taxes imposed under the Motor Fuel Tax Act, MCL 207.1001 *et seq.* (the “Act”). This Letter Ruling presumes that the CNG and LNG have not been mixed or blended with any other fuel or substance which could otherwise render it taxable under the Act.

Neither CNG nor LNG constitute Diesel Fuel, Gasoline or Liquefied Petroleum Gas under the Act

Both CNG and LNG are forms of natural gas, which is predominantly methane. While CNG is natural gas in a highly compressed gaseous state (approx. 3,000 to 3,600 psi), LNG is natural gas which has been converted to a liquid. At normal atmospheric pressure (i.e., 14.7 psi), natural gas cannot be converted into a liquid until it is cooled to approximately minus 260 degrees Fahrenheit. To remain a liquid once converted, natural gas must be maintained cold (at least minus 117 degrees Fahrenheit), independent of the pressure applied.

Neither CNG nor LNG is Diesel Fuel: To constitute diesel fuel under the Act, a substance not sold for blending with diesel fuel must be a liquid. Neither CNG nor LNG qualifies as a “liquid” as that term is defined in the Act. Furthermore, the Act imposes the tax on diesel fuel on a “per gallon” basis, which is a unit of liquid measure, and does not provide for the conversion of a substance in a gaseous state into a “gallon” for taxation purposes. Therefore, neither CNG nor LNG constitutes “diesel fuel” for purposes of the Act.

Neither CNG nor LNG is Gasoline: The Act imposes the tax on gasoline on a “per gallon” basis, which is a unit of liquid measure, and neither CNG nor LNG can constitute a “liquid” as that term is defined in the Act. Furthermore, the Act does not provide for the conversion of a substance in a gaseous state into a “gallon” for taxation purposes. Therefore, neither CNG nor LNG constitutes “gasoline” for purposes of the Act.

Neither CNG nor LNG is Liquefied Petroleum Gas: To constitute Liquefied Petroleum Gas under the Act, a gas must have the ability to be maintained in a “liquid” state “at normal atmospheric temperature” by suitable pressure. As natural gas consisting primarily of methane, neither CNG nor LNG can satisfy this statutory requirement. Therefore, neither CNG nor LNG constitutes Liquefied Petroleum Gas under the Act.

For the reasons described above, neither CNG nor LNG is subject to the taxes imposed under the Act.

Letter Ruling 2013-2

Page 2

If you have further questions regarding the Michigan Motor Fuel Tax Act, please contact the Department of Treasury Special Taxes Division at (517) 636-4600. Further information is also available at: www.michigan.gov/taxes.

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LR 2013-2

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