The Good and Bad News for CNG and the New Tax Bill

Summary

Congress passed and the President signed a new tax bill that dramatically affects the use of compressed natural gas (CNG) as a vehicle fuel. For heavy users of fuel this will be an excellent system of incentives. For small users and private vehicles this is not a good incentive structure. In the long term the new incentives for the use of CNG as a motor vehicle fuel will be tremendous if Congress allows the incentives to be enforce for several years. The new legislation affects the tax credits for equipment used in compressing natural gas (fueling station equipment), the credits for conversions and re-engine procedures, plus the Excise Tax Rebate on CNG fuel.

The Bad News

Gone all are the tax credits for converting a vehicle to run on CNG. This includes conversion kits and re-powering heavy trucks and equipment.

The tax credit for purchasing the equipment for a fueling station have been reduced from 50% of the investment with a $50,000 cap down to 30% of the investment with a $30,000 cap.

Home refueling equipment for private use has been reduced to $1,000.

The Good News

The Federal Excise Tax Rebate for the purchase of CNG as a motor vehicle fuel is back. At the end of each year a CNG fuel station owner will be able to file for a cash rebate of fifty-cents ($0.50) for each CNG gallon sold during the year. CNG is sold as "gasoline gallon equivalents" or gge. The intent of the law is to make the sales price of CNG more attractive as the station owners pass this saving on to their customers. In reality, the savings is only 31.7 cents per gallon because the CNG retailer still has to remit the Federal Road Use Tax called Federal Excise Tax. The Excise Tax has to be paid twice a month on every gallon sold except for CNG sold to cities, states, school systems and some other non-profit organizations.

Fleet owners that have their own CNG fueling equipment get to claim and keep the Excise Tax Rebate. This includes cities, states, school systems and some other non-profit organizations.

The provisions of the Excise Tax Rebate are retro-active back to January 1, 2010.

Great news for non-taxable entities such as cities, states, and non-profits. Under the previous incentive laws tax credits were greatly reduced for non-taxable entities because they do not pay federal income taxes. So to take advantage of the tax credits, non-taxable entities had to lease their equipment and rolling stock then share the tax credits with the owners, and investors. With the renewal of the Excise Tax Rebate, non-taxable entities will receive a cash rebate for each gge purchased without having to share the incentive with owners and investors.