

About the AFTC

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (PL 109–59, § 11113, 26 USC § 6426, § 6427) provides an incentive for compressed natural gas (CNG) and liquefied natural gas (LNG) when used as a “motor vehicle” fuel (including use in some non-road vehicles). The 50-cent incentive is provided to businesses, individuals, and tax-exempt entities that sell or, in some cases, use the fuel.

The general rule is that the credit goes to the seller in the case of retail transactions. If the CNG or LNG, however, is dispensed using a private fueling station, the credit may go to the user of the fuel. This is explained later in greater detail. For businesses and tax-exempt entities (e.g., federal, state and local governments), the credit must first be taken as an excise tax offset against taxes otherwise owed on alternative fuel they use or sell, and then it may be taken as a refundable credit. Many tax-exempt entities will not owe any excise taxes and can immediately apply for a payment that essentially amounts to a rebate. In the case of individuals using the fuel for personal vehicles, the incentive is limited to an excise tax offset.

This fact sheet is not intended to address all of the issues associated with this incentive. Persons interested in learning more about how the incentive may be claimed should review the relevant IRS documents and consult a tax professional.

Tax Credit Values

- LNG¹— \$0.50 per diesel gallon equivalent (DGE)
- CNG²— \$0.50 per gasoline gallon equivalent (GGE)

Tax-Exempt Entities

The tax incentive for selling or using CNG and LNG is usually referred to as an excise tax credit. However, the incentive is three things—an excise tax credit, a refundable income tax credit, and a rebate. Tax-exempt entities that own their own fueling stations or take title to the natural gas prior to compression or delivery into the tank of a motor vehicle can claim the 50-cent credit. This is true whether they are using the fuel in their own vehicles or selling the fuel to other customers. If they sell CNG or LNG to other fleets that are not tax-exempt, however, they may be liable for paying the excise taxes associated with taxable fuel (\$0.183 cents per CNG GGE and \$0.243 cents per LNG DGE).

Individual Consumers

For the most part, individual consumers cannot claim the credit for using CNG or LNG because the person selling the fuel will be the claimant. However, an individual that owns a home

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refueling unit can partially benefit from the tax incentive for CNG. The incentive in this case acts as an excise tax offset, zeroing out the person's liability for federal excise taxes. In the case of CNG, the federal excise tax due is \$0.183 per GGE. Individual consumers, however, cannot claim a refundable income tax credit for the remainder of the credit (31.7 cents per GGE) because the refundable credit is limited to persons that sell or use natural gas for business purposes. Under this reasoning, a person who owns a home refueling unit and uses the fuel for business purposes would be able to claim the full 50-cent credit.

New Effective Date – Extended Through 2021

The tax credit was extended through 2021 by HR 133, PL 116-260, Div. EE, § 147 (The Consolidated Appropriations Act, 2021; enacted on December 27, 2020). The credit for CNG and LNG took effect on October 1, 2006 and originally expired on September 30, 2009. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (PL 111–312, § 701) extended the CNG and LNG fuel credits for 2011 and made them retroactive for 2010. The American Taxpayer Relief Act of 2012 (HR 8; PL 112–240, § 412) extended the availability of the 50-cent credit through the end of 2013 and made it retroactive for 2012. The Tax Increase Prevention Act of 2014 (H.R. 5771) retroactively extends the fuel credit through 2014. The Consolidated Appropriations Act, 2016 extended the incentive through 2016 and made it retroactive for 2015 (HR 2029; PL 114-113, § 192). The Bipartisan Budget Act of 2018 (HR 1892; PL 115-123, § 40415) included a retroactive extension of the incentive for 2017. In December 2019, the Further Consolidated Appropriations Act, 2020 (HR 1865, PL 116-94, § 133) included a retroactive extension for 2018 and 2019 and available for fuel sold or used in 2020. In December 2020, the Consolidated Appropriations Act, 2021 (HR 133, PL 116-260, Div. EE, § 147) extended the credits for natural gas through 2021; the tax provisions are actually found in Division EE: The Taxpayer Certainty and Disaster Tax Relief Act of 2021.

Note – as explained elsewhere in this document, you must be registered with the IRS as an Alternative Fueler before you can claim the credit.

IRS Regulations, Guidance, and Forms

IRS Notice 2006–92 provides guidance on implementation of the incentive for selling or using CNG and LNG as motor vehicle fuels. The guidance provides information on who receives the tax credit, how to take the credit, the units of measurement to use for calculating the tax provisions, and which tax forms to use. The 50-cent credit can be taken as an excise tax credit, an income tax credit, or a direct payment, depending on the circumstances. To claim the credit, claimants must first register as an alternative fueler with the IRS and receive a registration number.

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In retail sales situations, the person selling the fuel is the one who will claim the incentive. However, in certain other cases the user or person that owns the fuel prior to placement into a motor vehicle can claim the credit. This is often the case with privately-owned stations where a business or governmental entity refuels its own fleets. It also may be the case where an entity purchases natural gas on its own but pays someone else a fee to own and operate a fueling station on its premises. The claimant in both cases would be the person or entity that owns the fuel just prior to its placement into the motor vehicle.

The IRS guidance indicates that a gasoline gallon equivalent (GGE) of CNG for purposes of the tax credit is 121 cubic feet or per 124,800 Btu (higher heating value or HHV). We recommend that claimants work with their local utility or fuel supplier if they need to convert another unit of measurement to cubic feet. The tax credit for LNG is 50 cent per diesel gallon equivalent, which is defined as 6.06 pounds or 1.71 gallons of LNG.

Motor Vehicles

The tax incentive for using CNG and LNG as motor vehicle fuel extends to some non-road and beyond-road vehicles. This is because the IRS definition of “motor vehicle” used for the alternative fuel incentive is broader than the definitions used for other purposes (e.g., implementation of the alternative fuel vehicle and infrastructure credits). The other incentives are limited to motor vehicles that are manufactured primarily for highway use. For purposes of the fuel credit, the relevant definition of motor vehicle is found in section 48.4041-8(c) of the IRS’s regulations and includes, *“all types of vehicles propelled by motor that are designed for carrying or towing loads from one place to another, regardless of the type of load or material carried or towed and whether or not the vehicle is registered or required to be registered for highway use. Included are fork lift trucks used to carry loads at railroad stations, industrial plants, warehouses, etc. The term does not include farm tractors, trench diggers, power shovels, bulldozers, road graders or rollers, and similar equipment which does not carry or tow a load; nor does it include any vehicle which moves exclusively on rails.”*

Timing of Past Retroactive Claims for 2018 - 2019

IRS in Notice 2020-8 required that all retroactive claims for 2018 and 2019 be submitted using Form 8849, Schedule 3 and that a single one-time claim submission be filed no later than August 11, 2020. Claims are made using Form 8849 (Claim for Refund of Excise Taxes) with accompanying Schedule 3 (Certain Fuel Mixtures and the Alternative Fuel Credit), and claims should cover the entire two-year time period. The IRS has indicated that taxpayers who filed protective or anticipatory claims prior to the release of Notice 2020-8 must refile their claims; the IRS will not consider the previous claims perfected by the extension of the tax credits.

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To file a claim, a person must be a registered alternative fueler. If you previously submitted claims to the IRS, then you are likely registered. First time claimants who are not registered must file Form 637 (Application for Registration) prior to making claims for credits. Persons intending to file the claim should seek advice from tax counsel or an accountant.

Links to IRS and Other Resources

- Notice 2020-8, "[Biodiesel and Alternative Fuels; Claims for 2018-2019](#)"
- Notice 2018-21, "[Biodiesel and Alternative Fuels; Claims for 2017; Excise Tax](#)"
- Notice 2006-92, "[Alternative Fuel and Alternative Fuel Mixtures](#)"
- [IRS Tax Forms](#) (scroll down to obtain the latest forms)

Tax Forms Needed to Claim Credit

- Form 637, "[Application for Registration](#)" — must be filed to claim credit
- Form 720, "[Quarterly Federal Excise Tax Return](#)" — to pay excise taxes owed, offset taxes with portion of credit, claim excess credit, and check refund
- Form 720X, "[Amended Quarterly Excise Tax Form](#)" — to file an amended form to take credit for unclaimed CNG or LNG used in the past Form 8849, "Claim for Refund of Excise Taxes" — to claim alternative fuel credit if you are tax-exempt and do not owe any excise taxes on alternative fuel; if you sell taxable fuel, use this form to claim excess credit not otherwise claimed on Form 720
- Form 8849, Schedule 3, "[Certain Fuel Mixtures and the Alternative Fuel Credit](#)" (this attachment goes with Form 8849 and is used to figure out how much credit to claim for alternative fuels used or sold)
- Form 4136, "[Credit for Federal Tax Paid on Fuels](#)" — use at the end of year to claim excise tax credit if not otherwise claimed during the year—mostly used by taxable entities

¹The federal excise tax rate on LNG is \$0.243 per gallon for fuel sold or used prior to Jan. 1, 2016. Starting in 2016, the rate changed to \$0.243 per diesel gallon equivalent (DGE) (i.e. 6.06 pounds or 1.71 gallons of LNG). Public Law 114-41, § 2008 (HR 3236) amends section 4041 of the IRC to define a DGE LNG for purposes of the tax code to be 6.06 lbs. Public Law 114-113, § 342 (HR 2029) amends the fuel credit so that it applied based on the same DGE unit used in the tax code, also starting Jan. 1, 2016. For current tax rates on motor fuels, see IRS Form 720.

² The federal excise tax rate on CNG is currently \$0.183 cents per gasoline gallon equivalent (GGE). A GGE for purposes of the federal excise tax is set at 5.66 lb. (or 123.57 cu. ft. per IRS guidance). Public Law 114-41, § 2008 (HR 3236) amends section 4041 of the IRC to define a GGE of CNG for purposes of the tax code to be 5.66 lbs. This change took effect Jan. 1, 2016. A GGE for purposes of the alternative fuel tax credit however is set at 124,800 Btu (higher heating value or HHV) or per 121 cu. ft. See IRS Form 720 for current excise tax rates and GGE definitions. Form 8849, Schedule 3 include definition of GGE for purposes of the tax credit.

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