



July 2007

TAX BULLETIN

CREDIT FOR FEDERAL TAX PAID ON FUELS

The IRS issued new rules, which took effect October 1, 2006, modifying the amount of tax credit that can be received for non-taxable uses of alternative fuels. These fuels are now taxed at higher a rate, which in turn raises the amount of tax credit that may be claimed for their non-taxable use. In addition to liquefied hydrogen, compressed and liquefied natural gases and P-series fuels, liquefied petroleum gas, more commonly referred to as propane, is now considered an alternative fuel. Ethanol, methanol, biodiesel, and renewable diesel are specifically excluded from consideration.

If the propane was used before October 1, 2006 for a non-tax use, taxpayers receive a credit of either 6.2 or 13.6 cents per gallon depending upon the type of usage. If the propane is used on or after October 1, 2006, the credit is 18.3 cents per gallon.

The non-tax uses of propane gas qualifying for the credit include use on a farm for farming purposes, off-highway business use, use in a boat engaged in commercial fishing, use in a bus transporting students and employees of schools, exclusive use by a nonprofit educational organization, exclusive use by a state, political subdivision of a state, or the District of Columbia, or use in an aircraft or vehicle owned by an aircraft museum.

Off-highway business use is perhaps the most common use that will give rise to a tax credit. Examples of off-highway business use include fuel used in stationary machines such as generators, compressors, and power saws, in forklift trucks, bulldozers, and earthmovers, and in cleaning machinery. Vehicles not used for transportation such as specially designed mobile machinery and trailers like those which can only serve as an office are eligible for the credit. To qualify as mobile machinery, the vehicle's chassis must have equipment mounted to it that performs operations unrelated to transportation such as construction, manufacturing, drilling, mining, timbering, processing, or farming. It also must be designed to serve only as a mobile carriage and mount for the equipment and be unable to carry any other type of load. Finally, the vehicle must travel less than 7,500 miles on public roadways during the taxable year. Also eligible are vehicles specially designed for off-highway transportation. All other vehicles, in particular self-propelled vehicles designed to carry loads over public roadways, do not qualify for the credit. Specifically excluded is any personal use of a vehicle.

If a taxpayer uses propane for a non-tax use, they may obtain a credit against their taxable fuel liability using Form 720, an annual federal tax credit using Form 4136, or a periodic refund using Form 8849. Taxpayers should first file Form 720 to reduce their fuel tax liability. Any excess credit should then be taken on either Form 8849 or Form 4136, depending upon whether the taxpayer wants a periodic refund or an annual credit.

Additional information can be found in IRS Publication 510, which can be accessed at www.irs.gov. If you have any questions regarding specific rules for claiming refunds of these taxes or we can assist you in computing the amount of your claim, please contact your Wolf Financial Group representative.