Private Letter Ruling No. 10-027
Redacted Version
Sales Tax

Is Liquefied Natural Gas (LNG) Eligible for the Sales Tax Exemption Provided by R.S. 47:305(D)(1)(g) for "Natural Gas"?

October 18, 2010

Facts

Liquefied natural gas ("LNG") is natural gas that has been converted into liquid form through a process of "liquefaction". LNG takes up approximately 1/600th the volume of natural gas. LNG is used for transporting natural gas to markets, via LNG tankers, because of its cost and volume efficiencies. Natural gas is not useable in its LNG form. LNG is odorless, colorless, non-toxic and noncorrosive.

The liquefaction process involves the removal of certain components, such as dust, acid gases, helium, water and heavy hydrocarbons. The natural gas is then condensed into a liquid at close to atmospheric pressure by cooling it to approximately minus 260 degrees Fahrenheit. The reduction in volume makes it considerably more cost effective to transport over long distances where pipelines do not exist. This transportation typically occurs by specially designed cryogenic LNG tankers. The energy density of LNG is 60% of that of diesel fuel.

The regasification process is a purely physical process, not a chemical process. The LNG that is off-loaded from the LNG tanker is first pumped into a storage tank. Once the owner requests its conversion into natural gas, the LNG is then pumped through a series of vaporizers that warm the LNG and return it to its natural gas state. Once the LNG is returned to natural gas, it exits the LNG terminal and is delivered to the owners via pipeline.

Issue

Whether the sale at retail, the use, the consumption, the distribution, or the storage to be used or consumed in Louisiana of LNG is eligible for the exemption provided by R.S. 47:305(D)(1)(g) for "natural gas"?

Department Analysis

The term "natural gas" is not defined in the sales tax law. In accord with section 61:I.4301(A) of the Louisiana Administrative Code, the term "natural gas" shall be construed in accord with the common usage of the language. The term "natural gas" is defined in *Webster's Ninth New Collegiate Dictionary* as "gas issuing from the earth's crust through natural openings or bored wells; a combustible mixture of methane and higher hydrocarbons used chiefly as a fuel and raw material; gas manufactured from organic matter (as coal)."

LNG is derived from natural gas by the cooling of the gas to a temperature of minus 260 degrees Fahrenheit, at which point the gas condenses to a liquid, and is reduced to a volume that is 1/600th the volume of natural gas. This change from gas to liquid is done solely to facilitate the storage or transportation of the product. LNG is unusable as a fuel source. A purchaser who would acquire the LNG is effectively purchasing natural gas for re-sale or consumption. The purchaser of LNG for consumption effectively bears the burden of regasification of the LNG into natural gas before the product can be used.

The question to be answered in determining the taxability of the LNG is whether the liquefaction of the natural gas to create LNG effectively creates a product that is commercially recognized as being different from natural gas, the purposes and uses of which are different from those of natural gas.

The department concluded on the basis of the information furnished in connection with the request for the Private Letter Ruling that LNG has no purposes or uses different from those of natural gas, other than to be in a form that facilitates more efficient storage and transport of the product.

The change of the natural gas from a gaseous state to a liquid state can be compared to changes to other materials that are rendered by heating, boiling, cooling, or freezing the materials, but which do create recognizable products that are different from the materials which existed prior to the changes made by the heating, boiling, cooling, or freezing. For example, ice and steam are viable and usable commercial products that are different from the water from which the products are derived.

Ruling

The Louisiana state sales and use taxability of liquefied natural gas ("LNG"), which is produced from natural gas solely to facilitate the storage and transport of the natural gas, and which must be re-gasified before any effective use of the gas, will be the same as that of natural gas. The state sales and use tax exemption provided by R.S. 47:305(D)(1)(g) for the sale at retail, the use, the consumption, the distribution, and the storage to be used or consumed of natural gas was fully or partially suspended for periods between July 1, 1986, and June 30, 2009. During those periods, transactions for LNG bore the same taxability rates as were applicable to natural gas.

Sincerely,

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