

Fuel Used by the Oil and Gas Industry

Motor Fuel Tax Act

Do you import fuel into the province?

Can you use coloured fuel in all off-highway vehicles?

This bulletin provides specific tax information to help the oil and gas industry understand how the motor fuel tax applies to their industry.

Overview

Fuel, such as gasoline and diesel, used in an internal combustion engine is taxable under the *Motor Fuel Tax Act*. Fuels used in internal combustion engines are taxed at different rates depending on where you purchase the fuel and how it is used.

Generally, all fuel consumed on-highway must be clear. Coloured fuel (also called dyed or marked fuel) use is limited to specific off-highway uses and when used in certain types of vehicles.

Down hole lubricants or heating oil that are not used in an internal combustion engine are not subject to the *Motor Fuel Tax Act*. However, they may be taxed under the *Social Service Tax Act*.

Definitions

A **highway** is any public road, street, lane or right of way (road allowance) in British Columbia.

A **highway project area** is a work area that is under construction, reconstruction, or repair by the provincial government, or a municipality or is designated for these purposes in a call for tender or contract. A highway project area does not include ongoing maintenance activities, such as grading, snow ploughing or other maintenance work done outside a highway project area.

A **commercial motor vehicle** is a vehicle with a permanently attached truck or delivery body, or a combination of vehicles, such as a tractor trailer unit. There are certain requirements for commercial motor vehicles used interprovincially or internationally. For details, please see [Bulletin MFT 008](#), *Inter-jurisdictional Motor Carriers: Fuel Used and/or Purchased in British Columbia*.

A **licensed motor vehicle** is a vehicle registered for use on a public road. Generally licensing includes a license plate for the vehicle; a validation decal on the plate; and the Owner's Certificate of Insurance and Vehicle Licence, or a Temporary Operating Permit. A motor vehicle is considered unlicensed if it does not meet any of these requirements.

Importing Fuel

You can import fuel into the province in bulk by pipeline, railcar, barge or truck for own use or resale. Fuel may also be imported in the supply tank of a vehicle.

Importing bulk fuel for own use – not in the supply tank of a vehicle

Tax is due when the fuel enters the province. You use the Miscellaneous Payment of Tax form (FIN 135) to send in the tax owing.

Importing fuel for your own use in the supply tank of a vehicle

You may bring up to 182 litres of fuel into the province in the supply tank of a non-commercial vehicle without paying fuel tax.

If you bring fuel in the supply tank of a commercial motor vehicle, you must:

- obtain a motive fuel user permit, or
- register under the International Fuel Tax Agreement (IFTA) if you have a qualified motor vehicle.

For more information, please see [Bulletin MFT 008](#), *Inter-jurisdictional Motor Carriers: Fuel Used and/or Purchased in British Columbia*.

Importing bulk fuel for resale

You must be appointed a collector under the *Motor Fuel Tax Act*, if you are importing fuel into the province for resale.

For more information contact the Fuel Tax Section at:

Fuel Tax Section

Consumer Taxation Branch

Ministry of Small Business and Revenue

PO Box 9442 Stn Prov Govt

Victoria BC V8W 9V4

E-mail: FuelTax@gov.bc.ca

Fax: 250 387-5882

Sellers of Coloured Fuel

If you sell coloured fuel in British Columbia you need authorization under the *Motor Fuel Tax Act*. An application form is available at www.sbr.gov.bc.ca/ctb/ColouredFuel.htm

Uses of Coloured Fuel

You may use coloured gasoline or coloured diesel fuel only for the purposes authorized under the *Motor Fuel Tax Act*. Coloured fuel is taxed at a lower rate. The fine and/or penalty for the unauthorized purchase or use of coloured fuel is equal to three times the tax that would have been payable if the fuel had not been coloured.

Generally, coloured fuel use is limited to specific off-highway uses and certain types of vehicles. Areas, such as logging, drilling or mine sites, and private roads built or maintained by industry, such as designated logging roads are considered off highway.

You may not carry coloured fuel in the supply tank of a motor vehicle where another supply tank in the same vehicle, and attached to the same engine, contains fuel that is not coloured.

General Uses of Coloured Fuel

You may use coloured fuel in:

- ships and boats,
- stationary or portable engines, such as generators and chainsaws,
- industrial machines when used off highway, such as bulldozers, backhoes and front-end loaders,
- specific types of equipment such as tractors and forklifts,

- road building machines, and
- unlicensed vehicles when used off highway such as all-terrain vehicles, snowmobiles, unlicensed trucks etc.

Stationary or portable engines

You may use coloured fuel in any stationary or portable engine (e.g. generators, refrigeration units on trucks or portable sawmills).

You may also use coloured fuel for gas/diesel powered welders with separate fuel storage, as long as that storage tank is not connected to the motor vehicle's engine.

Industrial machines

You may use coloured fuel in industrial machines when the equipment is:

- used off-highway (use on private roads is permitted), or
- travelling to or from a location where the use of coloured fuel in the vehicle is authorized.

Industrial machines are front-end loaders, backhoes, shovels, bulldozers, graders, earth compactors, rollers, crushers, lumber carriers, skidders, forklifts, grass mowers and any machine equipped with "caterpillar" tracks.

Road-building machines

You may use coloured fuel in road-building machines when the vehicle is:

- used at a highway project area, or
- used by or for the government in construction or repair of roads maintained by the government.

You must use clear fuel in road-building machines when:

- the vehicle is used on a highway outside a highway project area for grading, clearing, maintenance etc., or
- the vehicle is not used by or for the government in construction or repair of roads maintained by the government.

Road-building machines are equipment specifically designed for grading, paving, and constructing roads.

Road-building machines include:

- bulldozers, gradalls, compactors, loaders, self-propelled compressors, paving machines, rollers, cranes, scrapers, dumptors, tractors, shovels, trucks such as Euclids which, because of their size, are not permitted to move along a highway without a special temporary operations permit, and articulated rock trucks (similar to Euclids).

Road-building machines *do not* include:

- vehicles designed for the transportation of persons or property to which machinery has been attached, or dump trucks designed to comply with the size and weight provisions of the Regulations under the Commercial Transport Act.

For example, typical machines that are not considered to be road-building machines include: mobile cranes, dump trucks, flushers, street sweepers, and trucks designed to transport persons (e.g. crummies) or property, or trucks to which machinery or equipment have been added.

Specific Uses of Coloured Fuel in Oil and Gas Exploration

In addition to the general uses of coloured fuel described above, some further uses are authorized for oil and gas exploration. Also, some refunds are available for clear fuel when used for specific coloured purposes (see the section below, Refund Provisions).

Oil and natural gas exploration includes the following types of activities:

- geophysical surveying
- site preparation for drilling
- building access roads
- digging reservoirs and building infrastructure
- drilling test holes, ratholes, mouseholes, conductor holes and the main hole
- mud logging
- well logging
- reclaiming and cementing wells that were never put into production

When an oil or natural gas company is actively engaged in exploration, you may use coloured fuel in a commercial vehicle, other than a pick-up truck, off-highway to deliver the following supplies and equipment:

- drilling rigs
- drilling equipment
- drilling supplies
- fuel and water
- well servicing equipment and supplies
- geophysical equipment and supplies
- seismic equipment and supplies

For example, a delivery company or a geophysical surveying contractor using a commercial motor vehicle off highway may use coloured fuel to transport seismic equipment to an oil or gas exploration site.

Please note: Pick-up trucks used by the oil and gas industry are not authorized to use coloured fuel. A pick-up truck is a vehicle that meets the criteria as a pick-up (PU) by the Insurance Corporation of British Columbia.

You may not use coloured fuel to deliver supplies and equipment after exploration ends. Therefore, you may not use coloured fuel to deliver equipment and supplies for casing and cementing, perforation, acidizing and fracturing, ongoing maintenance of a productive well, or any other activity that occurs after completion of the well.

In order to use coloured fuel, the commercial vehicle must be operated 100% off highway.

If you deliver qualifying supplies and equipment in a commercial vehicle to a person who is actively engaged in oil and gas exploration, and a portion of the trip is on a highway, you must use clear fuel. However, you may apply for a refund of tax paid on the clear fuel consumed off-highway.

You may not use coloured fuel to deliver any other supplies, such as road-building materials, administrative supplies, food or water for a drilling crew.

You may use coloured fuel to deliver water consumed during the drilling process. However, you may not use coloured fuel to deliver water consumed in well servicing equipment used on a producing well.

Natural Gas Used in Compressors

When is Natural Gas Tax Exempt?

Natural gas is exempt from tax when you use it, or purchase it for use, in compressor(s) that are:

- used to transmit waste gas (composed primarily of hydrogen sulphide and carbon dioxide) within the gas processing plant and from the gas processing plant to a well, or
- located at the well head and used to inject waste gas into a depleted well for permanent disposal, or

- located at the well head, along the pipeline between the well head and the processing plant, or within the gas processing plant, and are used to compress gas that is not marketable gas.

Compressors and Pumps: Natural Gas Tax Rates

You pay tax on natural gas when you use it, or purchase it for use, in a stationary engine that compresses natural gas or pumps oil. You use the *Natural Gas Consumed By Internal Combustion Engines* form (FIN 451) to send in the tax owing.

The tax rate depends on where the compressor or pump is located.

- If you use natural gas in a compressor that compresses or pumps natural gas or oil and which is located:
 - within the natural gas processing plant and used to compress marketable gas, or
 - at the well head or within the oil processing plant,the rate is 1.1¢ per 810.32 litres.

- If you use natural gas in a compressor or pump that compresses or pumps natural gas or oil and is located:
 - outside of the natural gas processing plant and used to move marketable gas in or out of storage facilities, or from the gas processing plant to market, or
 - along pipelines that move oil from the well head to the oil processing plant or from the oil processing plant to market, or in or out of storage facilities,the rate is 1.9¢ per 810.32 litres.

The tax rate is 1.1¢ per 810.32 litres for natural gas that is self-produced and used in a stationary engine.

The tax rate is 7% of the purchase price where natural gas is purchased for use in a stationary engine, other than described above.

Refund Provisions

You may apply for a refund of the difference between the clear and coloured fuel tax rates in the following two situations.

1. You delivered qualifying supplies and equipment in a commercial motor vehicle, other than a pick-up truck, to a person who is actively engaged in oil and gas exploration, and because a portion of the trip was on a highway, you used clear fuel. You may apply for a refund of tax paid on the clear fuel consumed off-highway.
2. You used clear fuel while the vehicle was stationary and the engine was being operated for one of the following purposes.
 - Rotating the drum on a ready mixed concrete truck and pumping ready mixed concrete.
 - Pumping or dispensing liquids or other materials to or from a commercial motor vehicle. (This does not include the use of a hydraulic cylinder or arm unless it is on a logging truck.) Examples of liquids and materials include water, fertilizers and fuel.
 - Operating a drilling unit that is operated by a power take-off unit.
 - Operating temperature control equipment to preserve goods in an insulated cargo box on a commercial motor vehicle. To qualify for this refund, the vehicle engine must be used to operate the temperature control equipment for a significant period of time, such as when parking overnight.
 - Operating a mobile crane.
 - Operating a hydraulic arm mounted on a logging truck.

You must apply for your refund within six years from the date the tax was paid on the fuel.

If you choose to use clear fuel where coloured fuel use is allowed, you may not claim a refund for the difference between the clear and coloured tax rates, except as noted above.

How to Apply for a Refund

To apply for a refund, you complete an *Application for Refund of Fuel Tax* form ([FIN 440](#)).

Because of different tax rates for gasoline and diesel fuels, you must submit a detailed listing by fuel type with your application or submit a separate application for each type of fuel used.

Your refund application must include:

- details on your commercial vehicle,
- details of what was delivered,
- the well name and location, and well identifier or map co-ordinates of where the goods were delivered, if applicable,
- details on who the goods were delivered to,
- the amount of fuel used off-highway, and
- receipts showing tax was paid on the clear fuel used.

You may be asked for further information to support your refund request.

To calculate the refund, you record the amount of fuel consumed on and off highway. If you travel on a regular route, you may calculate your refund using a map to estimate the off-highway distance traveled.

Record Keeping Requirements

The *Motor Fuel Tax Act* requires that you keep all your records and documents in British Columbia for seven years.

Need more info?

Oil and gas website: www.sbr.gov.bc.ca/ctb/OilandGas.htm

Telephone (Vancouver): 604 660-4524

Toll-free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Motor Fuel Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/ctb

Acknowledgments

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References: *Motor Fuel Tax Act*, Sections 1, 2, 9, 14.1, 15, 15.1, 16, 22, 25, 26, 27 and 34, and Regulations 4, 15.1, 16, 40 and 49