

Ministry of Finance

Tax Bulletin



ISSUED: July 2004 REVISED: April 2010

Bulletin MFT 007

www.fin.gov.bc.ca/rev.htm

Fuel Used by the Oil and Gas Industry

Motor Fuel Tax Act

Do you import fuel into the province?

Do 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.

Table of Contents

Overview.....	1
Definitions.....	2
Importing Fuel.....	2
Sellers of Coloured Fuel	3
Uses of Coloured Fuel	3
Specific Uses of Coloured Fuel in Oil and Gas Exploration	5
Natural Gas Used in Compressors.....	7
Refunds	8
Record Keeping Requirements.....	9

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.

Downhole 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*.

For information on how the *Carbon Tax Act* applies to fuel used in the oil and gas industry, please see the notice [Self Assessing Carbon Tax](#).

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](#), *International Fuel Tax Agreement and Motive Fuel User Permits*.

A **licensed motor vehicle** is a vehicle registered for use on a public road. Generally, licensing includes a licence 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 or a supplemental supply tank of a motor vehicle.

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

Tax is due when the fuel is used in the province. You use the *Miscellaneous Payment of Tax* form (**FIN 135**) to send in the tax owing. To obtain a copy of this form, you can contact the Fuel Tax Section.

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

You may bring up to 182 litres of fuel into the province in the supply tank of a non-commercial motor 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**, *International Fuel Tax Agreement and Motive Fuel User Permits*.

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
Ministry of Finance
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/business/Consumer_Taxes/Motor_Fuel_Tax/register/sell_colour_fuel.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.

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, and
- 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 pickup 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, and
- 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: Pickup trucks used by the oil and gas industry are not authorized to use coloured fuel. A pickup truck is a vehicle that meets the criteria as a pickup (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 the difference between the tax paid on clear fuel and the coloured fuel tax rate, when consumed off-highway (see the section below, Refunds)

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.

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 internal combustion engine that compresses natural gas or pumps oil. You self-assess the tax due using the *Natural Gas Consumed by Internal Combustion Engines* form ([FIN 451](#)). However, the tax rate depends on where the compressor or pump is located. For the motor fuel tax rates, please see [Bulletin MFT 005](#), *Tax Rates on Fuels*.

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

Refunds

If you purchase clear fuel and use that fuel for a specific qualifying use, you may be eligible for a refund of the difference between the clear and coloured motor fuel tax rates. The sections below explain what specific uses qualify, and how to apply for a refund.

The ministry must receive your refund application within four years from the date you paid the motor fuel tax. The ministry will not issue a refund of less than \$10.

Off-Highway Refund

If a portion of your trip was on a highway, you used clear fuel and you delivered qualifying supplies and equipment in a commercial motor vehicle, other than a pickup truck, to a person who is actively engaged in oil and gas exploration, you may qualify for a refund.

The refund amount is based on the difference between the tax you paid on the clear fuel and the coloured fuel tax rate for the portion of the trip that was off-highway.

To apply for a refund, you are required to complete an *Off-Highway Refund Application* form ([FIN 141](#)). For information on how to complete the application form, please see the instructions printed on page one of the form.

The application form outlines the specific supporting documents required for off-highway refund applications. Please read this section of the form carefully as the supporting documents that are required by the ministry may vary, depending on industry type and activity.

Stationary Engine Refund

You may qualify for the stationary engine refund if you used clear fuel while the vehicle was stationary and the engine operated equipment, such as a drilling unit operated by a power take-off unit or a mobile crane.

To apply for a refund, you are required to complete a *Stationary Engine Refund Application* form ([FIN 159](#)). For information on how to complete the application form and for a complete list of qualifying equipment, please see the instructions printed on page one of the form.

The application form outlines the specific supporting documents required for stationary engine refund applications. Please read this section of the form carefully as the supporting documents that are required by the ministry may vary, depending on industry type and activity.

Record Keeping Requirements

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

Need more info?

Oil and Gas Industry website: www.sbr.gov.bc.ca/industry_specific/oil_and_gas/oil_and_gas.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/business/Consumer_Taxes/Motor_Fuel_Tax/legislation.htm

Acknowledgments

We wish to acknowledge and thank the *Canadian Association of Geophysical Contractors*, *Canadian Association of Petroleum Producers*, *Energy Industry Services Association of British Columbia* and the *Petroleum Services Association of Canada* for consulting with us on public information for the oil and gas industry. By working with us, they help us better serve their members and work towards making British Columbia the best place to do business.

References: *Motor Fuel Tax Act*, Sections 1, 2, 3.1, 4, 5, 9, 10, 10.1, 15, 16, 20, 20.2, 22, 25, 26, 27, 34, and 45.3, and Regulations 4, 15.1, 16, 40, 49, 51.1 and 51.2