

SN 2000(11)

Credit Procedures for Reduced Rate Petroleum Products

PURPOSE: This Special Notice explains the procedures that companies engaged in the distribution, use and consumption of petroleum products in Connecticut must follow to receive credit for excess petroleum products gross earnings tax paid on sales of petroleum products that are ultimately taxable at a reduced rate.

This Special Notice has been revised to include references to the *North American Industrial Classification Systems (NAICS)*, United States Office of Management and Budget, 1997 edition, added by the 2000 session of the Connecticut General Assembly.

EFFECTIVE DATE: Applicable to sales occurring on or after July 1, 1998. References to the *North American Industrial Classification Systems (NAICS)*, United States Office of Management and Budget, 1997 edition, are effective May 26, 2000.

STATUTORY AUTHORITY: Conn. Gen. Stat. §12-587, as amended by 2000 Conn. Pub. Acts 174, §34.

BACKGROUND: Under Conn. Gen. Stat. §12-587, any company engaged in the refining or distribution, or both, of petroleum products, which distributes such products in Connecticut, must pay tax at the rate of 5% of its gross earnings derived from the first sale of the petroleum products in the state. For purposes of the petroleum products gross earnings tax, the company that pays the tax on the first sale of petroleum products in Connecticut is the “taxpayer.” The tax is due with **Form OP-161**, *Petroleum Products Gross Earnings Tax Return*, on or before the last day of the month next succeeding the quarterly period in which such products are sold.

REDUCED RATE PETROLEUM PRODUCTS:

Sales of the following products are subject to the petroleum products gross earnings tax at reduced rates:

- Number 2 heating oil used exclusively in a vessel that is primarily engaged in interstate commerce, where the vessel qualifies for an exemption under Conn. Gen. Stat. §12-412, and
- Number 6 oil used exclusively by a company that is included in code classifications 2000 through 3999, inclusive, of the *Standard Industrial Classification (SIC) Manual*, 1987 edition, or in Sector 31, 32 or 33 of the *North American Industrial Classification Systems (NAICS)*, United States Office of Management and Budget, 1997 edition.

Conn. Gen. Stat. §12-587 provides a phase-out over five years of the gross earnings tax on sales of these products. For such sales of number 2 and number 6 oil made:

<u>on or after</u>	<u>but before</u>	<u>the tax rate is</u>
July 1, 1998	July 1, 1999	4%
July 1, 1999	July 1, 2000	3%
July 1, 2000	July 1, 2001	2%
July 1, 2001	July 1, 2002	1%
July 1, 2002	—	0

See **Special Notice 98(7)**, *1997 Legislative Changes Affecting the Petroleum Products Gross Earnings Tax Effective July 1, 1998*.

SPECIAL FILING PROCEDURES TO OBTAIN CREDIT:

Because of the legislative change to Conn. Gen. Stat. §12-587, a portion of the petroleum products on which 5% tax is paid may ultimately be used in a manner that will subject it to tax at a reduced rate. For a taxpayer to receive credit for excess tax paid on sales of petroleum products that are ultimately taxable at a reduced rate, the following

procedures must be followed when the taxpayer files its **Form OP-161**:

- A consumer of reduced rate petroleum products must complete **Form AU-550, Application for Credit for Reduced Rate Petroleum Products**, and provide it to the consumer's supplier. In some cases, the consumer's supplier will be the taxpayer. By completing **Form AU-550**, the consumer certifies that the petroleum products listed have been used in a reduced rate manner and that the 5% gross earnings tax was paid on such products.
- Where the consumer's supplier is not the taxpayer, each supplier will complete its own **Form AU-550**, attach it to its customer's **Form AU-550**, and provide both to its supplier until the taxpayer that made the first sale of those petroleum products that were ultimately used in a reduced rate manner receives the properly completed **Forms AU-550** from every qualifying purchaser of the reduced rate product.
- When it receives all properly completed **Forms AU-550**, the taxpayer that paid the 5% gross earnings tax on the first sale of those petroleum products that were ultimately used in a reduced rate manner may take a credit for tax paid in excess of the reduced rate on Line 6 of **Form OP-161**. The process involving **Form AU-550** is similar to the certification process currently used by distributors for requesting credit for tax paid on petroleum products that are purchased in Connecticut but subsequently sold out of state.
- Only by presenting properly completed **Forms AU-550** can a taxpayer receive credit for excess tax paid on those products that are ultimately used in a reduced rate manner. The amount of the credit is the difference between the 5% gross earnings tax and the reduced rate in effect for sales of numbers 2 and 6 oils that are used in a manner that qualify them for a reduced tax rate.
- The taxpayer must attach copies of all **Forms AU-550** received during each quarter to **Form OP-161** and submit them to the Department. The taxpayer must keep the records documenting these reduced rate sales for three years from the date of the sale.

EFFECT ON OTHER DOCUMENTS: This **Special Notice** supersedes **Special Notice 98(12), Form OP-161** has been modified to reflect the changes described in this document. **CERT-116, Exempt Petroleum Products Certificate**, is not affected by the procedures described and will not be revised, as was originally reported in **Special Notice 98(7)**.

EFFECT OF THIS DOCUMENT: A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates the Department's informal interpretation of Connecticut tax law and may be referred to for general guidance by taxpayers or tax practitioners.

FOR FURTHER INFORMATION: For further information concerning the petroleum products gross earnings tax, call the Excise/Public Services Subdivision at **860-541-3225**.

If you have questions regarding other Connecticut taxes, please call the Department of Revenue Services during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

FORMS AND PUBLICATIONS: Forms and publications are available all day, seven days a week:

- **Internet:** preview and download forms and publications from the DRS web site: <http://www.state.ct.us/drs>;
- **DRS TAX-FAX:** call **860-297-5698** from the handset attached to your fax machine and select from the menu; or
- **Telephone:** Call 1-800-382-9463 (in state), or 860-297-5962 (anywhere) and select **Option 2** from a touch-tone phone.