

**Revenue Information Bulletin No. 16-021<sup>1</sup>**

**April 7, 2016**

**Sales Tax**

**Taxability of Propane Sold Directly to the Consumer for Residential Use**

Act 25 and Act 26 of the 2016 First Extraordinary Session of the Louisiana Legislature retained the sales tax exemption for natural gas sold directly to the consumer for residential use, as provided for by Article VII, Section 2.2 of the Louisiana Constitution. The effective date of both Acts is April 1, 2016. The purpose of this Revenue Information Bulletin is to explain the treatment, for Louisiana sales tax purposes, of propane sold directly to the consumer for residential use.

As stated in the Department's Redacted Private Letter Ruling No. 10-027, the term "natural gas" is not defined in the sales tax law. In accordance with Section 61:I.4301(A) of the Louisiana Administrative Code, the term "natural gas" shall be construed in accordance 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)."

Propane is a by-product of natural gas processing. The processing of natural gas involves removal of butane, propane, and large amounts of ethane from the raw gas, in order to prevent condensation of these volatiles in natural gas pipelines. The raw gas fits the above definition of natural gas since the raw gas issues from the earth's crust through natural openings or bored wells and is a combustible mixture of methane and higher hydrocarbons.

Propane is most commonly used to provide energy to areas not serviced by a natural gas distribution system. When used in a residential home, propane has no purpose or use different from that of natural gas. For example, it is used in heating homes, heating water, cooking, drying clothes, and fueling gas fireplaces.

As a component of raw gas (natural gas), propane sold directly to the consumer for residential use is to be considered natural gas for the sales tax exemption provided by Article VII, Section 2.2 of the Louisiana Constitution. Propane sold directly to the consumer for residential use encompasses direct delivery of the propane by truck to a consumer's residence to fill a propane tank connected directly to the home. Propane cylinders sold by retail outlets do not qualify for this tax treatment and will be subject to state sales tax.

Kimberly Lewis Robinson  
Secretary

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<sup>1</sup> Revenue Information Bulletin updated on May 2, 2016.