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TAX TREATMENT OF DIESEL FUEL AND HEATING OIL

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You asked for a discussion of the differences in the tax treatment of diesel fuel and number 2 heating oil under state law.

SUMMARY

The three state taxes on fuel are the motor fuels tax, the sales tax, and the petroleum products gross earnings tax. The first is a flat cents per gallon tax on fuel sold in the state, the second is a percentage of the gross retail sales price, and the third is a percentage of the wholesale price.

While diesel fuel and number 2 heating oil are essentially the same product, they are treated differently under state tax law, and the tax treatment depends in part on how each is used. Diesel is generally subject to the motor vehicle fuels tax, while number 2 heating oil is not. Diesel is generally exempt from the sales tax. Number 2 heating oil used in residences, manufacturing, and farming is exempt from the sales tax but oil used in commercial buildings is taxable. Number 2 heating oil is exempt from the petroleum products gross earnings tax while diesel used in an electric generating facility to generate electricity is subject to this tax.

MOTOR VEHICLE FUELS TAX

Diesel is generally subject to the motor vehicle fuels tax, while number 2 heating oil is not. Diesel sold to certain entities, such as municipalities and for certain purposes, such as heating or manufacturing, are tax-exempt. Tax refunds are available for certain uses. For some of these uses, including livery vehicles and taxis, the refund is 50% of the tax paid that is attributable to travel in the state, while for others, such as school buses the refund is 100% of the tax paid ([CGS § 12-455](#) et seq.) The tax on diesel is 46.2 cents per gallon for the 12 months starting July 1, 2011.

SALES TAX

Motor vehicle fuels, including diesel, are generally exempt from the sales tax. The exemption applies to any fuel that is used (1) in any motor vehicle licensed or required to be licensed to operate on public highways, whether or not the petroleum products tax has been paid on the fuel and (2) for any other use, if that tax has been paid and has not been refunded. (An example of the second exemption is fuel used in boats or off-road construction vehicles.) Diesel fuel is also exempt from the sales tax when it is used in (1) any vessel having a displacement above 4,000 dead weight tons or for use in any vessel primarily engaged in interstate commerce or (2) portable power system generators that are larger than 150 kilowatts.

Number 2 heating oil is exempt from the sales tax when it is used in any residential dwelling. It is also exempt when it is used in any building directly involved in agricultural production, fabrication of a finished product to be sold, or in an industrial manufacturing plant, so long as at least 75% of the fuel used in the building is used for these purposes ([CGS § 12-412](#)). The sales tax is 6.35% of the retail price.

PETROLEUM PRODUCTS GROSS EARNINGS TAX

This tax applies to the first sale of petroleum products in the state, which typically takes place at the wholesale level. The tax applies to neither number 2 heating oil used exclusively for heating purposes or diesel, other than diesel used in an electric generating facility to generate electricity ([CGS § 12-587](#) et seq.). The tax is 7% of the wholesale price.

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