



2025 tax preference review: Natural Gas for Transportation

Legislative Auditor's conclusion

Three preferences reduce the cost of using natural gas as a transportation fuel. However, the emissions reduction objective for the preferences is not met.

Key points

- The Legislature passed four tax preferences to support the use of natural gas as a transportation fuel.
- The preferences aim to provide uniform tax treatment to sellers of natural gas, reduce emissions, promote economic development, and lower fuel costs.
- Two preferences meet legislative intent to provide uniform tax treatment for natural gas. A Department of Revenue (DOR) work group will make recommendations about taxation of liquefied natural gas as a marine fuel by December 2025.
- The preferences met the economic development objective by lowering the cost to build a liquefied natural gas plant. The status of the employment objective is not disclosable.
- The emissions reduction objective of the tax preference is not met: Use of natural gas as a transportation fuel is less than originally anticipated.

Tax detail

Tax type:
Multiple

Beneficiary savings:
\$5.1 million-\$19.2 million in 2027-29

Expiration date:
One preference:
July 2028

Two preferences:
No expiration date

RCW:
Multiple

Read the full report: leg.wa.gov/jlarc/Audits

Recommendations to the Legislature

1. **Continue the public utility tax (PUT) and natural gas use tax exemptions to ensure uniform taxation of natural gas as a transportation fuel regardless of the seller.**
2. **Continue the sales tax exemption for liquefied natural gas in interstate commerce. In determining the level of benefit, the Legislature should consider recommendations from DOR's work group on taxation of marine use of liquefied natural gas.**
3. **Modify the PUT exemption to require beneficiaries to report the amount of compressed natural gas and liquefied natural gas produced and sold. This information would facilitate future reviews.**

Contact us

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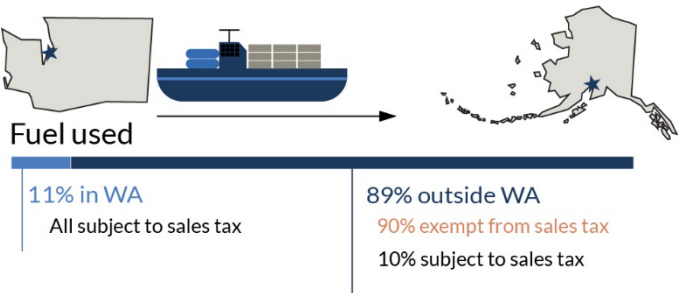
Two preferences provide uniform tax treatment for sellers of natural gas

- The Legislature’s intent is to give uniform tax treatment of natural gas as a transportation fuel regardless of the seller.
- The PUT preference exempts sales of natural gas as a transportation fuel by natural gas utilities. The use tax preference exempts a consumer from paying use tax when natural gas is used as a transportation fuel. These preferences meet the legislative intent.

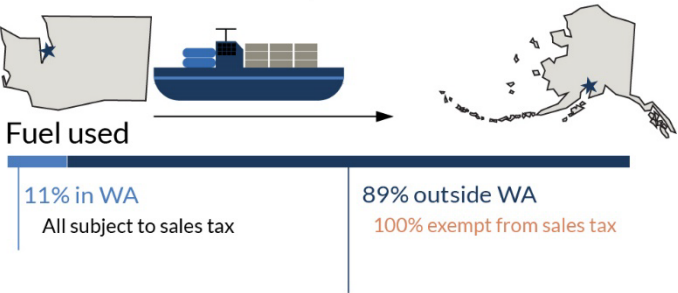
The sales tax exemption does not provide uniform tax treatment of natural gas compared to other marine fuels, such as diesel

- While the sales tax exemption for liquefied natural gas is limited to 90%, using diesel in interstate commerce is fully exempt from sales tax.

Natural gas sales tax exemption



Diesel sales tax exemption



The Legislature directed JLARC to evaluate four objectives related to the preferences’ economic and environmental benefits

Economic	Fuel Savings	Emissions	Jobs
Met. Estimated cost to build and equip a liquefied natural gas facility exceeded the target of \$250 million.	Not met. Washington State Ferries do not run on liquefied natural gas, so public entities have no fuel savings.	Not met. Except for the NO ₂ target, the emissions reduction targets were not met.	By law, JLARC cannot disclose whether the jobs objective was met.

Beneficiaries of the preferences are projected to save an estimated \$5.1 million to \$19.2 million in the 2027-29 biennium

- JLARC staff requested data about liquefied natural gas production, sales, and consumption to estimate tax savings. JLARC staff did not receive permission from all beneficiaries to disclose tax savings. Staff instead relied on public data to estimate beneficiary savings.

Fiscal Year	PUT Exemption	Sales Tax Exemption	Natural Gas Use Tax Exemption	Sales and Use Tax Exemption: Machinery and Equipment	Total
27-29 biennium	\$1.2 – \$5.3	\$2.9 – \$13.0	\$1	\$0	\$5.1 – \$19.2

Dollars in millions