



Excise Taxes and Special Levies Notice

ETSL73

March 2010

Notice to the Transportation Sector and Commodity Tax Practitioners – Request For Consultation on the Administration of the Excise Tax Exemption for Diesel Fuel Used in the Generation of Electricity Relating to Hotel Services on Vehicles

The purpose of this notice is to solicit input on ways to simplify the application of the excise tax exemption for diesel fuel used in the generation of electricity for hotel services on vehicles. Concerns have been raised that calculations required to determine the amount of this exemption are both costly and time-consuming for industry and government alike. The CRA is, therefore, inviting submissions from industry and tax practitioners with a view to simplifying the application of the exemption. Submissions specific to simplifying the exemption should be made by May 31, 2010.

Stakeholders are encouraged to provide detailed submissions with examples of ways to simplify the exemption. For example, some industry members have expressed an interest in establishing exemption ratios for specific vehicles or transportation sectors. Following the consultation period, CRA officials will meet with affected stakeholders as required to further analyze the submissions. Implications of proposals on current policy, regulations or legislation will be considered following analysis of the submissions.

Comments should be sent by May 31, 2010 to:

Excise Taxes and Other Levies
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Background

Under the *Excise Tax Act* (ETA), paragraphs 23(8)(c) and 68.01(1)(b) provide for an exemption and end-user refund for diesel fuel used in the generation of electricity, except if the electricity so generated is used primarily in the operation of a vehicle. Electricity used other than in the operation of a vehicle is considered to be used for hotel services. The current CRA policy relating to hotel services on vehicles can be found in Excise Taxes and Special Levies Policy Statement EP-003, Application of Excise Tax to Diesel Fuel Used in the Generation of Electricity for the Provision of Hotel Services on Vehicles.

Summary of Policy Statement EP-003

For purposes of the exemption, the CRA's position is that a vehicle means carriages or conveyances of all kinds which are used to carry or transport persons and/or goods. Examples include, but are not limited to, ships, tugs, ferries, trucks, tractor-trailers, locomotives, airplanes, and railway rolling stock.

La version française de la présente publication est intitulée *Avis aux fiscalistes et au secteur des transports – Demande de consultation sur l'administration de l'exonération de la taxe d'accise au combustible diesel servant à la production d'électricité pour la prestation de services hôteliers relativement à des véhicules.*



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Hotel services are not related to the operation of the vehicle. Rather, they are services that provide for the comfort and convenience of the passengers and/or crew. Examples of hotel services are heat/air conditioning, light, entertainment and the preparation of meals.

Under the policy, a refund of excise tax for diesel fuel is available where diesel fuel consumed in a vehicle is used primarily for hotel services. The following calculation is used to determine if a refund is available:

- Determine and exclude from the total fuel load on a given vehicle, the amount of diesel fuel used to propel the vehicle or consumed for any other non-electrical purposes. The resulting amount will be considered the eligible diesel fuel for possible exemption purposes.
- Analyse the electrical draw placed on the vehicle to determine the portion of the total draw attributable to each piece of equipment for hotel services and for operational use.
- The electrical draw for hotel services and operational use for each piece of equipment must be summed to determine the total vehicle usage for hotel services and operational use.

If the total vehicle hotel services electrical draw is greater than 50%, 100% of the eligible diesel fuel will be exempt from excise tax.

In general, to support a refund for excise tax under Policy Statement EP-003, detailed engineering reports are required to be submitted to the CRA at the time of refund. The engineering report must demonstrate clearly that the diesel fuel consumed by the vehicle is primarily for hotel services.

All technical publications related to excise taxes and special levies are available on the CRA Web site at www.cra.gc.ca/etsl.