**Private Letter Ruling**

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| **Ruling Number:** | **P-1998-108** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Chemicals added to natural gas.** |
| **Keywords:** |  |
| **Approval Date:** | **09/01/1998** |

**Body:**

Office of Policy & Research  
  
September 1, 1998

XXXXX  
XXXXX  
XXXXX

RE: Your letter of  
December 30, 1997

Dear XXXXX:  
  
I have been asked to respond to your letter of December 30, 1997 addressed to Mr. Robert Sweat. In it, you ask about the taxability of odorants and anticorrosion chemicals that are added to natural gas. While natural gas producers can claim exemption when chemicals are consumed in production, pipelines cannot make the same claim. This is because pipelines do not produce a taxable product or provide a taxable service. This disparity can result in the same chemical being taxed when sold to a pipeline company that is exempted when sold to a gas producer.  
  
Odorants (capstan or thiophane) are chemicals used to odorize natural gas. Various state and federal laws require odorants to be placed in natural gas for reasons of safety. Odorants are an integral part of natural gas and are exempt from Kansas sales and use tax. It makes no difference what company buys and furnishes this component part of natural gas.  
  
Triethylene glycol, and chemicals with similar uses for dehydrating nature gas, that are used by a natural gas producer are exempt from sales and use tax as consumed in production. See *In re Derby Refining Co.*, 17 Kan.App. 2d 377, 838 P.2d 354 (1992). However, the same chemical is not exempt if sold to a pipeline company. This rule applies event though both pipelines and producers use underground storage to store natural gas. As discussed, pipelines are considered to be providing a transportation service and cannot claim that they consume their purchases in their production of a taxable product. Thus, triethylene glycol sold to a pipeline company is taxable.  
  
Chemicals, such as isopropanol alcohol, that are used to inhibit pipeline corrosion are not exempt from sales and use tax. Anticorrosion chemicals are not component parts of nature gas because they are not essential or necessary to the production of natural gas. See *K.A.R. 92-19-54(a)(1).* Anticorrosion chemicals serve to protect the pipeline. Pipeline and other equipment used in the transportation of natural gas are not exempt from sales tax. These chemicals are taxable since they are used to protect the pipeline and are not a necessary or integral part of natural gas and are merely incidental to natural gas production rather than a necessary or essential part of it. Please note that the fact that trace amounts of these chemicals may be detected in nature gas provided to end users does not change tax treatment of these chemicals.  
  
This is a private letter ruling pursuant to K.A.R. 92-19-59. It is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to an accurate determination by the department, this ruling is null and void. This ruling will be revoked by operation of law without further department action if there is a change in the controlling statutes, administrative regulations, revenue rulings or case law that materially effects this determination. Please call me if you have any additional questions.

Sincerely,  
  
  
  
Thomas E. Hatten

Attorney/Policy & Research  
  
  
**Date Composed: 09/02/1998 Date Modified: 10/10/2001**