

**701—64.4(452A) Ethanol blended gasoline exemption.**

**64.4(1)** *For periods prior to July 1, 1980.* Under Iowa Code section 452A.3 a mixture of motor fuel and alcohol distilled from agricultural products which contains at least 10 percent alcohol is exempt from the tax imposed by Iowa Code section 452A.3 until June 30, 1983. The following procedure will be followed to claim this exemption:

*a.* Ethanol blended gasoline imported. The distributor importing motor fuel which has already been blended with alcohol to produce ethanol blended gasoline will report the ethanol blended gasoline as “motor fuel received” and deduct the same as an exempt sale. The deduction must be supported by a signed statement.

*b.* Motor fuel imported or withdrawn from a terminal. When motor fuel is imported or withdrawn from terminal storage to be later blended with alcohol, the tax attaches when withdrawn and the deduction taken at the time of blending. The deduction must be supported by a statement signed by the person responsible for the blending. If the person responsible for the blending is not a licensed distributor, that person should get a refund or credit from the distributor from whom the motor fuel was obtained for the fuel taxes paid, and the distributor should take the deduction from the monthly distributor’s report.

*c.* The distributor shall be allowed a deduction against subsequent fuel tax liabilities.

*d.* This procedure allows a deduction from “motor fuel received” to reach “taxable motor fuel,” and the evaporation and shrinkage allowance provided in Iowa Code section 452A.8 is a percentage of “taxable motor fuel.” Therefore, evaporation and shrinkage allowance does not apply to fuel which is blended into ethanol blended gasoline.

*e.* All sales of ethanol blended gasoline to the final consumer are subject to the Iowa retail sales tax, unless otherwise exempt.

**64.4(2)** *Blender’s license and refunds of tax paid.* For periods after June 30, 1980, and to July 1, 1983.

*a.* If the person responsible for the blending of ethanol blended gasoline is not a licensed distributor, that person must obtain a blender’s license from the department of revenue in accordance with Iowa Code section 452A.6.

*b.* For the person licensed as a blender to secure a refund of the tax previously paid to a licensed distributor the blender must obtain a refund permit in accordance with subrule 64.8(4) and rule 64.9(452A).

A licensed distributor would follow the procedures for reporting the gallons blended into ethanol blended gasoline as stated in 64.4(1) above except where the blender is other than a licensed distributor.

**64.4(3)** *Ethanol blended gasoline taxation.*

*a. Licensed distributors.* The distributor will report the total gallons of ethanol blended gasoline and pay the tax on the total gallons of ethanol blended gasoline. The ethanol blended gasoline gallons will be reported separately from the motor fuel gallons which are first received. For periods after August 31, 1981, the evaporation and shrinkage allowance is applicable to ethanol blended gasoline or motor fuel blended into ethanol blended gasoline.

*b. Ethanol blended gasoline blenders.* Ethanol blended gasoline blenders must purchase their motor fuel tax-paid. The ethanol blended gasoline blenders will report the total gallons of motor fuel purchased tax-paid and the total gallons of alcohol which are blended into ethanol blended gasoline. A refund will be allowed on the difference between the tax paid on motor fuel and the tax due on the blended ethanol blended gasoline.

*c. Signed statement.* A statement signed by the person responsible for the blending is required for all persons showing ethanol blended gasoline on their distributor report or ethanol blended gasoline blenders refund form. The statement must show the total gallons of motor fuel and alcohol blended into ethanol blended gasoline.

**64.4(4)** *Ethanol blended gasoline—blending errors.* For periods beginning July 1, 1978, to June 30, 2000.

Where blending errors occur and an insufficient amount of alcohol has been blended with motor fuel so that the mixture fails to qualify as ethanol blended gasoline (as defined in Iowa Code section 452A.2), the tax shall be determined as follows:

*a.* If the amount of the alcohol blended with motor fuel is short by five gallons or less per blend, the alcohol and motor fuel blended shall be considered ethanol blended gasoline and there shall be no penalty or assessment of additional tax.

*b.* If the alcohol and motor fuel mixture is short of alcohol by more than five gallons but the alcohol blended with the motor fuels is short by 1.01 percent or less of such mixture, the motor fuel shall be divided for tax purposes into ethanol blended gasoline and motor fuel containing no alcohol as follows.

1. That portion of alcohol shall be added to motor fuel on the basis of one part alcohol to nine parts motor fuel to determine the portion which is considered ethanol blended gasoline and have a tax status as such. The portions of motor fuel remaining shall be considered taxable motor fuel subject to tax at the prevailing rate.

2. In addition to the tax, penalty and interest imposed on the portion considered motor fuel, there is a \$20 fine imposed for each blending error.

*c.* If the amount of alcohol blended with motor fuel is short by more than 1.01 percent of the total blend, the total blend of motor fuel and alcohol is subject to tax as motor fuel at the prevailing rate of tax.

The following formula will be used to compute blending errors:

Motor fuel  $\div$  9 = required alcohol

Misblended ethanol blended gasoline  $\times$  .0101 = gallons of alcohol short

Required alcohol - actual alcohol is less than or equal to gallons of alcohol short

Actual alcohol  $\times$  9 = motor fuel portion of ethanol blended gasoline

Motor fuel portion of ethanol blended gasoline + actual alcohol = ethanol blended gasoline

Actual motor fuel - motor fuel portion of ethanol blended gasoline = motor fuel

The following factors are assumed for all examples:

Figures are rounded to the nearest whole gallons; ethanol blended gasoline taxed at \$.05 per gallon; motor fuel tax at \$.10 per gallon; and evaporation and shrinkage at 3 percent for motor fuel only. There is no evaporation for misblended ethanol blended gasoline prior to September 1, 1981. Penalty and interest charges are not computed in the examples.

## EXAMPLE 1.

$$\begin{aligned}
 \text{Motor fuel} &= 8,000 \text{ gal.} \\
 \text{Alcohol} &= 800 \text{ gal.} \\
 8,000 \div 9 &= 889 \text{ gal. required alcohol} \\
 8,800 \times .0101 &= 89 \text{ gal. short of alcohol} \\
 889 - 800 &= 89 \text{ gal. short of alcohol}
 \end{aligned}$$

89 is equal to 89 which means that the tax is applied according to paragraph "b" above as follows:

$$\begin{aligned}
 800 \times 9 &= 7,200 \text{ gal. motor fuel portion of ethanol blended gasoline} \\
 7,200 + 800 &= 8,000 \text{ gal. of ethanol blended gasoline} \\
 8,000 - 7,200 &= 800 \text{ gal. of motor fuel subject to tax}
 \end{aligned}$$

$$\begin{aligned}
 8,000 \text{ gals. of alcohol} \times \$0.05 &= \$400 \text{ tax on ethanol blended gasoline} \\
 800 \text{ gal. of motor fuel} \times 3\% &= 24 \text{ gals. evaporation} \\
 800 \text{ gal.} - 24 \text{ gal.} &= 776 \text{ gal.} \\
 776 \text{ gal.} \times \$0.10 &= \$77.60 \\
 \text{Fine} &= \underline{\$20.00} \\
 \text{TOTAL} &= \$497.60 (\$400 + \$77.60 + \$20)
 \end{aligned}$$

## EXAMPLE 2.

$$\begin{aligned}
 \text{Motor fuel} &= 8,000 \text{ gal.} \\
 \text{Alcohol} &= 795 \text{ gal.} \\
 8,000 \div 9 &= 889 \text{ gal. required alcohol} \\
 8,795 \times .0101 &= 89 \text{ gal. short of alcohol} \\
 888 - 795 &= 94 \text{ gal. short of alcohol}
 \end{aligned}$$

94 is greater than 89 which means that the entire blend is considered motor fuel and the tax is applied according to paragraph "c" above as follows:

$$\begin{aligned}
 8,795 \text{ gals.} \times 3\% &= 264 \text{ gals. evaporation} \\
 8,795 \text{ gals.} - 264 &= 8,531 \text{ gals. of motor fuel} \\
 &\text{gals.} \\
 8,531 \times \$0.10 &= \$853.10
 \end{aligned}$$

## EXAMPLE 3.

$$\begin{aligned}
 \text{Motor fuel} &= 8,000 \text{ gal.} \\
 \text{Alcohol} &= 885 \text{ gal.} \\
 8,000 \div 9 &= 889 \text{ gal. required alcohol} \\
 \\ \\
 889 \text{ gal.} - 885 \text{ gal.} &= 4 \text{ gal.}
 \end{aligned}$$

This total blend is considered ethanol blended gasoline because the blend is short by less than 5 gallons. The tax would be as follows:

$$8,885 \text{ gals.} \times \$0.05 = \$444.25$$

This rule is intended to implement Iowa Code section 452A.3.