

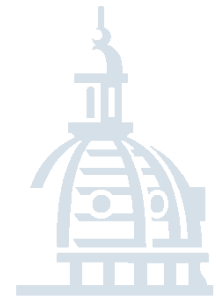


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SF 628 – Biofuels Excise Tax (LSB2747SV)

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Fiscal Note Version – New

Description

[Senate File 628](#) replaces the existing motor fuel excise tax schedule with a new schedule to determine the tax rate of motor fuel. The Bill adopts the new schedule through July 1, 2026. Tax rates will be determined by the market share of ethanol-blended gasoline that is 15.0% (E-15) or higher.

Table 1 — Proposed Gasoline Excise Tax Schedule

Ethanol (E-15) Market Share	E-15 (or higher) per-gallon	Gasoline per-gallon
0.0% – 10%	24.0¢	30.0¢
10.1% – 12%	24.5	30.0
12.1% – 14%	25.0	30.0
14.1% – 16%	25.5	30.0
16.1% – 18%	26.0	30.0
18.1% – 20%	26.5	30.0
20.1% – 22%	27.0	30.0
22.1% – 26%	27.5	30.0
26.1% – 35%	28.0	30.0
35.1% – 45%	28.5	30.0
45.1% – 65%	29.0	30.0
65.1% – 85%	29.2	30.0
85.1% – 95%	29.5	30.0
95.1% – 100%	30.0	30.0

The Bill also makes the following changes:

- Extends the applicability of the tax schedule that determines the special fuel excise tax (biodiesel and diesel fuel) through July 1, 2026. Under current law, the biodiesel tax schedule will expire on July 1, 2020.
- Requires the Iowa Department of Revenue (IDR) to use the [Retailers Motor Fuel Gallons Annual Report](#) to determine the market share of ethanol-blended gasoline and biodiesel.
- Makes nonsubstantive changes to language related to the special tax schedule.
- Strikes a provision that sets the motor fuel excise tax rate for E-85 at 17.0 cents per gallon. This provision only applies if the difference between the tax that was paid on E-85, and what would have been paid if the tax rate for gasoline had been imposed, was less than \$25,000. The 17.0-cent tax rate for E-85 was only in effect for one year. Since July 1, 2007, the per-gallon tax rate for E-85 has been the same as ethanol.
- Requires the method for determining tax rates on motor fuel and special fuel to be reviewed by the General Assembly every five years. Current law requires legislative review every six years.

- Creates new reporting classifications for E-15 or higher and biodiesel that is B-11 or higher.

The Bill is effective on July 1, 2019.

Background

Revenue collected through the motor fuel excise tax is deposited in the Road Use Tax Fund (RUTF). The RUTF allocates funding for road construction to primary roads (under the Department of Transportation (DOT)), secondary and farm-to-market roads (counties), and city streets. Current law allocates 47.5% to the DOT, 32.5% to counties, and 20.0% to cities.

For FY 2019, the motor fuel excise tax is 29.0 cents per gallon for ethanol and 30.7 cents for unblended gasoline. The current motor fuel tax schedule, which expires on July 1, 2020, is as follows:

Table 2 — Current Gasoline Excise Tax Schedule

Ethanol (E-10) Market Share	E-10 (or higher) per-gallon	Gasoline per-gallon
0.0% – 50.0%	29.0¢	30.0¢
50.1% – 55.0%	29.0	30.1
55.1% – 60.0%	29.0	30.3
60.1% – 65.0%	29.0	30.5
65.1% – 70.0%	29.0	30.7
70.1% – 75.0%	29.0	31.0
75.1% – 80.0%	29.3	30.8
80.1% – 85.0%	29.5	30.7
85.1% – 90.0%	29.7	30.4
90.1% – 95.0%	29.9	30.1
95.1% – 100.0%	30.0	30.0

In 2015, a similar tax schedule for special fuels was enacted. The current tax schedule for diesel and biodiesel, which expires on July 1, 2020, is as follows:

Table 3 — Current Special Fuel (Diesel) Tax Schedule

Biodiesel (B-11) Market Share	B-11 (or higher) per-gallon	Diesel per-gallon
0.0% – 50.0%	29.5¢	32.5¢
50.1% – 55.0%	29.8	32.5
55.1% – 60.0%	30.1	32.5
60.1% – 65.0%	30.4	32.5
65.1% – 70.0%	30.7	32.5
70.1% – 75.0%	31.0	32.5
75.1% – 80.0%	31.3	32.5
80.1% – 85.0%	31.6	32.5
85.1% – 90.0%	31.9	32.5
90.1% – 95.0%	32.2	32.5
95.1% – 100.0%	32.5	32.5

The IDR calculates the market share of blended fuel based upon monthly fuel tax reports. These reports “present the gross gallons of fuels delivered by Iowa licensed Suppliers, Blenders, Importers, Restrictive Suppliers, and Liquefied Petroleum Gas/Compressed Natural Gas Dealers and Users.” The report does not count gallons of ethanol and biodiesel that are blended after this data is collected. As a result, these reports underrepresent the total gallons of ethanol and biodiesel consumed in Iowa. The [Retailers Motor Fuel Gallons Annual Report](#) also includes data regarding fuel types consumed and shows higher consumption of ethanol and biodiesel. In calendar year 2018, the market share of ethanol was 65.4% on monthly reports, and 87.0% on the retailers report. The market share for biodiesel (B-11+) was 10.0% on the monthly reports and 47.4% on the retailers report. Tax rates for motor fuel excise tax and special fuel excise tax will be determined based on the market share of the calendar year that ended six months prior to the new fiscal year.

After an increase to the motor fuel excise tax rate, an inventory tax is imposed on businesses that hold title to stored fuels that are for sale (Iowa Code section [452A.85](#)). The increase must be at least one half cent per gallon. The tax applies to motor fuel, special fuel, and other fuels that are for sale. The inventory tax is equal to the difference between the increased tax and the previous tax rate.

Assumptions

Fuel Consumption

- Motor fuel (gasoline and ethanol) consumption in Iowa will total 1,750 million gallons for each year forecast, similar to the average over the last three years.
- Special fuel consumption in Iowa will total 717.5 million gallons in FY 2020. It is also assumed that consumption will increase by 0.7% in FY 2021, 2.1% in FY 2022, and decline by 0.5% in FY 2023. For the last three years, special fuel consumption has averaged 713.1 million gallons.

Refunds

- Refunds issued against motor fuel excise taxes will be 8.6% of gross receipts.
- Refunds issued against special fuel excise taxes will be 3.3% of gross receipts.

Market Share of E-10 and E-15

- The tax rate for ethanol-blended fuel will be 24.0 cents per gallon, and the tax rate for gasoline will be 30.0 cents per gallon.
 - The market share for motor fuel classified at E-15 or higher is estimated to be 5.0% in FY 2020, 6.0% in FY 2021, 7.0% in FY 2022, and 8.0% in FY 2023.
- Tax rates for FY 2020 will be 29.0 cents per gallon for ethanol-blended fuel and 30.5 cents per gallon for gasoline. For FY 2021 through FY 2023, the tax rate for all motor fuel will be 30.0 cents per gallon.

Market Share for Biodiesel

- The tax rate for biodiesel will be 29.5 cents per gallon in FY 2020, and 29.8 cents per gallon for FY 2021 to FY 2023. The tax rate for diesel will be 32.5 cents per gallon for all years.
 - The market share for biodiesel is estimated at 50.0% in FY 2020, 51.0% in FY 2021, 52.0% in FY 2022, and 53.0% in FY 2023. The last three years' market share for biodiesel B-11 or more, as reported on the retailers report, has been 38.1%, 49.6%, and 47.4%, respectively.
- The tax rate for biodiesel will be 29.5 cents per gallon for all fiscal years up to FY 2020, and 32.5 cents per gallon for all other fiscal years.

- The market share for biodiesel is currently based upon monthly fuel tax reports that are issued by the IDR. Based upon these reports, the market share for biodiesel was 10.0% in 2018.

Fiscal Impact

Changes to revenues deposited in the RUTF are displayed below. **Table 4** reflects current law, which includes the expiration of the existing tax schedules for ethanol and biodiesel, compared to proposed law. The impact of the inventory tax on businesses that hold title to stored fuels that are for sale is unknown.

Table 4
Revenue Changes to the Road Use Tax Fund (in millions)
SF 628 vs. Current Law (Tax Schedules Repealed after FY 2020)

	FY 2020	FY 2021	FY 2022	FY 2023
Motor Fuel				
Proposed	\$ 475.1	\$ 474.1	\$ 473.1	\$ 472.2
Current Law	466.7	479.9	479.9	479.9
Difference	8.3	-5.8	-6.7	-7.7
Diesel				
Proposed	222.4	224.8	229.4	228.0
Current Law	222.4	234.8	239.7	238.5
Difference	-	-9.9	-10.4	-10.5
Total	<u>\$ 8.3</u>	<u>\$ -15.7</u>	<u>\$ -17.1</u>	<u>\$ -18.2</u>

Sources

LSA calculations
 Department of Transportation
 Iowa Department of Revenue
 IDR Monthly Fuel Reports
 IDR Retailers Motor Fuel Gallons Annual Reports

/s/ Holly M. Lyons

April 22, 2019

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.