



SF 2403 – Biofuels Excise Tax (LSB2747SZ.1)

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Fiscal Note Version – Final Action

Description

Senate File 2403 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 (**Table 1**). Tax rates will be determined by the market share of ethanol-blended gasoline that is 15.0% (E-15) or higher.

Table 1 — Proposed Motor Fuel Excise Tax Schedule

| Ethanol (E-15) Market Share | E-15 (or higher) per gallon | Gasoline per gallon |
|-----------------------------|-----------------------------|---------------------|
| 0.0% – 10.0% | 24.0¢ | 30.0¢ |
| 10.1% – 12.0% | 24.5 | 30.0 |
| 12.1% – 14.0% | 25.0 | 30.0 |
| 14.1% – 16.0% | 25.5 | 30.0 |
| 16.1% – 18.0% | 26.0 | 30.0 |
| 18.1% – 20.0% | 26.5 | 30.0 |
| 20.1% – 22.0% | 27.0 | 30.0 |
| 22.1% – 26.0% | 27.5 | 30.0 |
| 26.1% – 35.0% | 28.0 | 30.0 |
| 35.1% – 45.0% | 28.5 | 30.0 |
| 45.1% – 65.0% | 29.0 | 30.0 |
| 65.1% – 85.0% | 29.2 | 30.0 |
| 85.1% – 95.0% | 29.5 | 30.0 |
| 95.1% – 100.0% | 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 June 30, 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 an obsolete provision that sets the motor fuel excise tax rate for E-85 at 17.0 cents per gallon.
- 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 gasoline that is E-15 or higher and biodiesel that is B-11 or higher.

The Bill is effective on July 1, 2020.

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 2020, the motor fuel excise tax is 29.0 cents per gallon for ethanol and 30.5 cents for unblended gasoline. The current motor fuel tax schedule, which expires on June 30, 2020, is as follows:

Table 2 — Current Motor Fuel 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 |

For FY 2020, the per-gallon excise tax on special fuel is 29.5 cents for biodiesel (B-11) and 32.5 cents for diesel. The current tax schedule for diesel and biodiesel, which expires on June 30, 2020, is as follows:

Table 3 — Current Special Fuel (Diesel) Excise 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 include data on 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 monthly reports and 47.4% on the retailers report. Tax rates for motor fuel excise tax and special fuel excise tax are determined based on the market share of the calendar year that ended six months prior to the new fiscal year.

Under current law, after an increase to the motor fuel excise tax rate due to changes in the market share or legislative changes, 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 1,750.0 million gallons annually for FY 2021 through FY 2024, similar to the average over the last three years.
- Special fuel consumption in Iowa will total 720.0 million gallons in FY 2021, and is assumed to increase by 0.7% in FY 2022 and 2.1% in FY 2023 and to decline by 0.5% in FY 2024. For the last three years, special fuel consumption has averaged 713.1 million gallons.

Refunds

- Refunds issued against motor fuel excise taxes will be 7.0% of gross receipts.
- Refunds issued against special fuel excise taxes will be 3.3% of gross receipts.

Estimated Market Share and Tax Rates of E-10 and E-15

- The market share for motor fuel classified at E-15 or higher is estimated to be 5.0% in FY 2021, 6.0% in FY 2022, 7.0% in FY 2023, and 8.0% in FY 2024.
- Based on the projected market share, 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. Compared to the tax schedules expiring June 30, 2020, this is a tax rate reduction of 5.0 cents per gallon for E-15+ and 0.5 cents for gasoline and E-10 or lower.

Estimated Market Share and Tax Rates for Biodiesel

- The market share for biodiesel is estimated to be above 58.0% in FY 2021, 59.0% in FY 2022, 60.0% in FY 2023, and 61.0% in FY 2024.
- Based on the projected market share, the tax rate for biodiesel will be 29.8 cents from FY 2021 to FY 2023 and 30.1 cents in FY 2024. The tax rate for diesel will be 32.5 cents per gallon for each of the projected fiscal years. Compared to the tax schedule expiring July 1, 2020, the estimated tax on biodiesel will increase by 0.3 cents per gallon from FY 2021 to FY 2023 and by 0.6 cents per gallon in FY 2024. The estimated tax on diesel will remain unchanged at 32.5 cents per gallon.

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 on June 30, 2020, for ethanol and biodiesel, compared to the Bill. 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 2403 vs. Current Law (Tax Schedules Repealed After FY 2020)

| | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|-------------|-----------------|-----------------|-----------------|-----------------|
| Motor Fuel | | | | |
| SF 2403 | \$ 483.4 | \$ 482.4 | \$ 481.4 | \$ 480.4 |
| Current Law | <u>488.3</u> | <u>488.3</u> | <u>488.3</u> | <u>488.3</u> |
| Difference | -4.9 | -5.9 | -6.8 | -7.8 |
| Diesel | | | | |
| SF 2403 | 213.3 | 214.5 | 222.7 | 221.4 |
| Current Law | <u>225.3</u> | <u>226.9</u> | <u>231.7</u> | <u>230.5</u> |
| Difference | -12.1 | -12.4 | -9.0 | -9.1 |
| Total | <u>\$ -16.9</u> | <u>\$ -18.2</u> | <u>\$ -15.8</u> | <u>\$ -16.9</u> |

Note: Numbers may not add due to rounding.

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

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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.