



SF 549 – Biofuel (LSB1311SZ)

Staff Contact: Rodrigo Acevedo (515.281.6764) rodrigo.acevedo@legis.iowa.gov

Jeff Robinson - Tax Credits - (515.281.4614) jeff.robinson@legis.iowa.gov

Fiscal Note Version – New

Description

[Senate File 549](#) modifies the definitions and requirements for use of ethanol and biodiesel blends, provides for financial incentives by appropriating funds to the Renewable Fuel Infrastructure Program (RFIP), modifies biofuel tax credits, and requires state vehicles to use certain types of biofuel blends.

Division I	Division II	Division III	Division IV
<p style="text-align: center;">Creates Motor Fuel Standards and Requirements</p> <p style="text-align: center;">Establishes Waivers</p> <p style="text-align: center;">Establishes Disciplinary Action</p> <p style="text-align: center;">Includes Effective Date Provisions</p>	<p style="text-align: center;">Financial Incentives for Retail Motor Fuel Sites Both Ethanol and Biodiesel</p> <p style="text-align: center;">Ethanol Cost-Share Program</p> <p style="text-align: center;">Biodiesel Cost-Share Program</p> <p style="text-align: center;">Renewable Fuel Infrastructure Fund</p> <p style="text-align: center;">Appropriation from General Fund</p> <p style="text-align: center;">Requirements and Classifications</p> <p style="text-align: center;">Includes Effective Date Provisions</p>	<p style="text-align: center;">Tax Credit Calculations</p> <p style="text-align: center;">Tax Credit Expiration Dates</p>	<p style="text-align: center;">Requirements for Renewable Fuel Use by State Motor Vehicles</p>

Division I restricts the advertisement and sale of blended and unblended gasoline and diesel fuel, directs how motor fuels may be advertised and sold by retailers, and provides penalties.

Gasoline and Ethanol Blends

Blended and unblended gasoline is designated by the percentage of ethanol the product contains. Unblended gasoline is designated E-0, while a gallon of gasoline that is blended as 15.0% ethanol is designated E-15. A gasoline blend that is designated E-85 may have an ethanol content that is as high as E-85, but E-85 is allowed to be sold with a lower ethanol content. The Bill places restrictions on retail sites that sell gasoline as a motor fuel.

- Upon enactment, the Bill restricts each retail location to no more than one dispensing unit (one nozzle) that may dispense a product that does not qualify as E-10 or higher (including E-0). The remaining nozzles may dispense blended gasoline that qualifies as E-10 or higher.

- Beginning January 1, 2025, the retail restrictions expand to allow one nozzle only per retail site to dispense gasoline blends that are less than E-15. The remaining nozzles may dispense blended gasoline that is E-15 or higher.
- The Bill allows for exceptions to the new restrictions for a retail location at an airport, racing facility, marina, or a location that sells older or specialty vehicles.

Diesel and Biodiesel Blends

Blended and unblended diesel is designated by the percentage of biodiesel the product contains. Unblended diesel is designated B-0, while a gallon of diesel that is blended as 5.0% biodiesel is designated B-5.

The Bill places restrictions on retail sites that sell diesel as a fuel for motor vehicles.

- Upon enactment, the Bill restricts each retail location to no more than one nozzle that may dispense a product that is less than B-5 (including B-0). From October 1 through April 14 (winter), any nozzle at a retail location may dispense products classified as B-5 or higher. From April 15 through September 30 (summer), any nozzle at a retail location may dispense a product that is classified as B-11 or higher.
- Beginning April 15, 2024, the summer blend that is not restricted is increased to B-20 or higher.
- The Bill allows for exceptions to the new restrictions for a retail location at an airport, an electric generating plant regulated by the United States Nuclear Regulatory Commission, or a facility storing or serving railroad locomotives.

The Bill also allows for the Governor or Secretary of Agriculture to issue waivers or suspensions of the new motor fuel restrictions in specific instances.

Division II amends eligible expenditure requirements for grants from the Renewable Fuels Infrastructure Program for Retail Motor Fuel Sites for both ethanol blended fuels and biodiesel. Under current law, Program grants can be used to fund infrastructure improvements for the storage and dispensing of E-15 blended fuel and for biodiesel of any classification. The Bill makes the following changes:

Ethanol Infrastructure: For grants involving ethanol infrastructure, the funds must be used for infrastructure used to:

- Store ethanol classified as E-100 or store ethanol blended gasoline classified as E-85 or higher.
- Store and dispense ethanol blended gasoline classified as E-85 or higher.
- Store ethanol classified as E-100 or store ethanol blended gasoline classified as E-85 or higher to blend and dispense ethanol or ethanol blended gasoline classified as E-85 or higher.

The cost-share agreements for grants involving ethanol remain the same as current law which includes grants for:

- A three-year period and 50.0% of the actual cost or \$30,000, whichever is less.
- A five-year period and 70% of the actual cost or \$50,000, whichever is less.

Biodiesel Infrastructure: For grants involving biodiesel infrastructure, the funds must be used for infrastructure improvements for the purposes below. This provision is repealed on July 1, 2024.

- To store biodiesel classified as B-100 or store biodiesel blended fuel classified as B-20 or higher.
- To store and dispense biodiesel blended fuel classified as B-20 or higher.

- To store biodiesel classified as B-100 or store biodiesel blended fuel classified as B-20 or higher.

Under current law, cost-share agreements grants involving biodiesel infrastructure are the same as for ethanol infrastructure grants. The Bill limits the biodiesel cost-share agreements to a three-year period and 50.0% of the actual cost or \$30,000, whichever is less.

The Bill maintains the supplemental financial incentives under current law of up to \$24,000 per site for both ethanol and biodiesel infrastructure projects.

Appropriations: Division II creates new appropriations and allocations for the Renewable Fuels Infrastructure Program for Retail Motor Fuel Sites.

- The Bill creates a General Fund standing limited appropriation of \$5.0 million beginning in FY 2022 for deposit into the Renewable Fuels Infrastructure Fund.
- For FY 2022 – FY 2024, the Bill specifies that not more than \$1.25 million be allocated from the Renewable Fuels Infrastructure Fund to support biodiesel infrastructure improvements. This allocation is repealed on July 1, 2024.
- Specifies that not more than \$50,000 may be allocated from the Fund to the Department of Agriculture and Land Stewardship for administrative costs of the Program.

Division II takes effect upon enactment.

Division III makes changes to the existing [E-15 Plus Gasoline Promotion Tax Credit](#), the [E-85 Gasoline Promotion Tax Credit](#), and the [Biodiesel Blended Fuel Tax Credit](#). The changes include:

- E-85 — Extends the availability of the credit by four years to December 31, 2028.
- E-15 — Extends the availability of the credit by four years to December 31, 2028, and reduces the tax credit rate during a portion of the year from 10.0 cents per gallon to 3.0 cents.
- Biodiesel — Extends the availability of the credit by four years to December 31, 2028, and changes the credit from one based on the amount of biodiesel contained in the gallon sold to one that is based on the amount of biodiesel and the time of year of the sale.

Division III takes effect on January 1, 2022.

Division IV establishes guidelines for fuel use and motor vehicles purchased by the State of Iowa. Furthermore, it requires the Department of Administrative Services (DAS) to compile a report including information from the Commission of the Blind, Board of Regents institutions, Department of Transportation, and Department of Corrections, with the report due on or before March 1 of each year.

The Bill requires any competitive-bidding procedure to verify that a vehicle manufacturer certify the use of B-20 or higher blends.

The Bill also requires the DAS to submit an annual report to the Governor and the General Assembly that includes the following information:

For Ethanol

- Number of State vehicles by model year.
- Vehicles able to use E-15 and E-85 without affecting car warranty.
- Number of E-15 and E-85 gallons purchased.

For Biodiesel

- Number of State vehicles by model year.
- Vehicles able to use B-20 without affecting car warranty.
- Number of B-20 gallons purchased.

Division IV takes effect upon enactment.

Background

As of FY 2021, the RFIP is funded through the Rebuild Iowa Infrastructure Fund (RIIF) at \$3.0 million.

Assumptions

Blended and Unblended Gasoline Sales and Tax Credits

- The projected annual retail sales of blended and unblended gasoline are based on the [Retailers Fuel Gallons Annual Reports](#) filed by Iowa fuel retailers with the State. The Department of Revenue (Department) produces an [annual summary](#) that provides the number of gallons sold in Iowa, both in total and by specific blend (E-0, E-10, E-15, E-20, and E-85). The [CY 2019 report](#) concludes that 1,564.9 billion gallons of blended and unblended gasoline motor fuel were sold by retailers who filed 2019 reports with the Department.
- The Department’s [Fuel Tax Monthly Report](#) for the 12 months that represent CY 2019 indicates that fuel tax was paid on 1,657.6 million gallons of gasoline fuel for the year. Therefore, the number of gallons represented in the annual retailers’ report is 94.4% of the gallons sold at retail over the period. To adjust for the missing gallons, the gallons of each blend category are divided by 94.4% so that total retail gallons equals taxed gallons for the year. The CY 2019 gallons reported by retailers and the adjusted gallons are presented in **Table 1**.

	<u>E-00</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	<u>Total</u>
CY 2019	211.5	1,284.3	49.0	1.1	19.0	1,564.9
CY 2019, Adjusted *	224.0	1,360.4	51.9	1.2	20.1	1,657.6

* Adjusted so total gallons match annual taxable gallons.

- Both Iowa retail gasoline motor fuel gallons sold and the volume of ethanol sold as a component of motor fuel decreased slightly over the past three years (CY 2016 to CY 2019). However, to simplify the fiscal impact projection process, all future years under current law are assumed to equal the CY 2019 adjusted gallons for all blends.
- The Bill has several provisions that are designed and expected to alter the mix of fuel blends sold in Iowa when compared to current law by increasing the amount of ethanol consumed as motor fuel. The Bill:
 - Dedicates additional State funds to a cost-share program that assists retailers with the replacement of gasoline fuel handling equipment (tanks, lines, and pumps) with new equipment that is able to dispense E-15, E-85, and higher products.
 - Requires that any time a retail motor fuel dealer installs, replaces, or converts motor fuel storage and dispensing infrastructure, the installed, replacement, or converted

infrastructure must be capable of storing and dispensing fuel classified as E-85 or higher.

- Extends existing retail tax incentives for the sale of E-15 and E-85, set to expire December 31, 2024, by four years to December 31, 2028.
- Restricts the sale of E-0 to no more than one nozzle at a retail site, effective upon enactment.
- Restricts the sale of unblended gasoline and ethanol blends below E-15 to no more than one nozzle at a retail site, effective January 1, 2025.
- Restricts the ability of a retailer to advertise E-0 for sale, and starting January 1, 2025, advertise for sale a blend that is less than E-15. This is assumed to prohibit a sign displaying the price and availability of the restricted fuels at the retail site that the passing public can see.
- The provisions discussed in the previous item are assumed to alter the sale of the various blends of gasoline motor fuel under the proposed law, when compared to current law (summarized in **Table 2**):
 - E-0 — Effective upon enactment, the sale of E-0 will be restricted to one nozzle at a retail site. Retailers will be required to discontinue use of all other nozzles dispensing E-0, or convert the nozzles to an E-10 or higher blend. This requirement will begin during CY 2021, and significantly restrict E-0 sales for the remainder of the year and for future years.
 - E-10 — Until E-10 becomes restricted to just one nozzle at a retail site, E-10 sales will increase as that fuel replaces E-0 sales. Beginning in CY 2024, E-10 sales will start to decline as retailers prepare for the restrictions on E-10 sales that begin January 1, 2025.
 - E-15 and E-20 — Beginning in CY 2022, the additional infrastructure spending and the E-0 restriction will enhance E-15 sales somewhat. E-15 sales will begin to accelerate in CY 2024 as retailers prepare for E-10 restrictions that begin January 1, 2025. Starting January 1, 2025, E-15 sales will increase sharply as the sale of gasoline below that blend level will be severely restricted.
 - E-85 — The additional funding for storage and dispensing infrastructure grants and the requirement that new and modified installations must be able to dispense E-85 will modestly increase E-85 sales each year.

	E-00	E-10	E-15	E-20	E-85
Base Projected Gallons	224.0	1,360.4	51.9	1.2	20.1
% of Base Projection					
CY 2021	80.0%	103.4%	100.0%	100.0%	100.0%
CY 2022	40.0%	108.5%	140.0%	140.0%	120.0%
CY 2023	27.0%	110.7%	140.0%	140.0%	122.0%
CY 2024	20.0%	96.2%	550.0%	550.0%	124.0%
CY 2025	20.0%	59.8%	1500.0%	1500.0%	126.0%
CY 2026	20.0%	21.6%	2500.0%	2500.0%	128.0%

- Gasoline (E-0) and pure ethanol (E-100) have different energy content by volume. Gasoline contains 115,400 BTU per gallon while E-100 contains 75,670 BTU per gallon. A vehicle that travels a given distance on E-0 will require a greater volume of fuel to travel the same distance on an ethanol blend. This estimate assumes the same number of miles driven by

Iowa retail fuel purchasers under the Bill as is assumed under current law. In order to account for the miles per gallon difference between blends of gasoline, this projection adjusts the overall fuel volume using the following energy factors:

- E-0 = 1.000
- E-10 = 1.036
- E-15 = 1.054
- E-20 = 1.074
- E-85 (calculated as E-79) = 1.374
- The current income tax credit for E-15 sales equals 10.0 cents per gallon for the summer period and 3.0 cents for the winter period. The Department reports that 39.4% of E-15 gallons are sold during the high rate period and 60.6% are sold at the lower rate. This equates to an average tax credit of 5.8 cents per gallon across a full year. The Bill changes the E-15 credit to 3.0 cents per gallon for all sales, beginning January 1, 2022. Therefore, the average change in the credit across an entire year is a reduction of 2.8 cents per gallon. In addition to this change, the E-15 tax credit is extended for an additional four years beyond its current sunset date of December 31, 2024.
- The current income tax credit for E-85 sales equals 16.0 cents per gallon and the credit remains at that level under the Bill. The Bill does extend the credit for an additional four years beyond its current sunset date of December 31, 2024.
- E-15 and E-85 tax credits are refundable and therefore 100.0% of earned credits are assumed to be redeemed. It is assumed that tax credits earned for a calendar year are redeemed 50.0% in the fiscal year that begins after the end of the calendar year and 50.0% in the succeeding fiscal year.
- **Appendix A — Gasoline** provides blended and unblended gasoline sales assumptions and the resulting projection for tax credits earned and redeemed.

Blended and Unblended Diesel Sales and Tax Credits

- Projected annual retail sales of blended and unblended diesel fuel are based on the [Retailers Fuel Gallons Annual Reports](#) filed by Iowa motor fuel retailers with the State. The Department produces an [annual summary](#) that provides the number of gallons sold in Iowa, both in total and by specific blend (B-0, B-01 to B-04, B-5 to B-10, B-11 to B-19, B-20 to B-49, and B-50 to B-100). The [CY 2019 report](#) concludes that 636.9 million gallons (blended and unblended) of taxed diesel fuel and 200.7 million gallons of tax-exempt diesel fuel were sold by retailers who filed 2019 reports with the Department.
- The Department's [Fuel Tax Monthly Report](#) for the 12 months that represent CY 2019 indicates that fuel tax was paid on 756.2 million gallons of taxed diesel fuel for the year. Therefore, the number of taxed gallons represented in the annual retailers' report is 88.2% of the taxed gallons sold at retail over the period. To adjust for the missing gallons, each blend category of diesel fuel is divided by 84.2% so that total retail gallons equals taxed gallons for the year. Since tax-exempt diesel gallons sold are not included in the Fuel Tax Monthly Report, the number of tax-exempt gallons cannot be accurately adjusted for gallons missing from the retailer report. The CY 2019 gallons reported by retailers and the adjusted gallons are presented in **Table 3**.

Table 3
2019 Iowa Diesel Retail Sales — Reported and Adjusted
 Motor Fuel Gallons in Millions

	B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total
CY 2019, Taxed	191.7	7.0	69.5	291.2	76.9	0.5	636.8
CY 2019, Tax Exempt	150.8	0.7	40.7	7.0	1.5	0.0	200.7
CY 2019, Adjusted *	227.7	8.3	82.5	345.8	91.3	0.6	756.2
CY 2019, Tax Exempt	150.8	0.7	40.7	7.0	1.5	0.0	200.7

* Adjusted so total gallons match annual taxable gallons.

- Retail diesel fuel sales have increased over the past three years (CY 2016 to CY 2019) and the mix of fuel sold has increased in average biodiesel content. However, to simplify the fiscal impact projection process, all future years under current law are assumed to equal the CY 2019 adjusted gallons for all blends.
- The Bill has several provisions that are expected to alter the mix of fuel blends sold in Iowa when compared to current law. The Bill:
 - Dedicates additional State funds to a cost-share program that assists retailers with replacement of diesel fuel handling equipment (tanks, lines, and pumps) with new equipment and requires that the equipment be rated to dispense B-20 and higher products.
 - Requires that retailers who participate in the infrastructure cost-share program for diesel fuel equipment must agree to advertise for sale and sell B-20 or higher fuel blends during the summer period.
 - Extends the existing Biodiesel Blended Fuel Tax Credit, set to expire December 31, 2024, by four years to December 31, 2028.
 - Changes the existing Biodiesel Blended Fuel Tax Credit, currently equal to 3.5 cents per gallon for blends classified as B-5 through B-10 and 5.5 cents for B-11 and higher blends, to 4.0 cents for B-11 or higher for gallons sold between October 1 and April 15 (winter), and 6.0 cents for B-20 or higher gallons sold the remainder of the year (summer). This change is effective January 1, 2022. Beginning January 1, 2025, the summer credit is changed to a 10.0 cents per gallon credit for B-30 or higher blends.
 - Restricts the sale of diesel blends below B-5 to no more than one nozzle at a retail site, effective upon enactment. This blend restriction applies to sales made October 1 through April 14 (winter). For the remaining dates (summer), the sale of blends below B-11 is restricted to one nozzle at a retail site. Starting with summer sales made on or after April 15, 2024, the B-11 summer nozzle limitation applies to blends below B-20.
- The provisions discussed in the previous item are assumed to alter the sale of the various blends of diesel fuel under the proposed law, when compared to current law (summarized in **Table 4**):
 - B-0 and blends below B-5 — Effective upon enactment, the sale of unblended diesel and blends below B-5 will be restricted to one nozzle at a retail site. Retailers will be required to discontinue use of all other nozzles dispensing unblended or low-blend diesel fuel or convert the nozzles to B-5 or higher (winter) and B-11 or higher (summer). This requirement will begin during CY 2021 and will significantly restrict B-0 sales for the remainder of the year and for future years.
 - B-5 to B-10 — B-5 and higher blends will supplant blends below B-5 starting upon enactment. The Bill allows blends as low as B-5 at any number of nozzles at a retail site during the winter months.
 - B-11 to B-19 — The Bill does not restrict the sale of B-11 to B-19 blends until April 15, 2024. The sale of these blends is assumed to continue at the CY 2019 level until

CY 2023, when retailers begin to adjust to the coming CY 2024 restrictions on blends below B-20.

- B-20 to B-49 — Sales of these blends are assumed to increase as lower blends are restricted and B-20 becomes the minimum summer blend for unrestricted sale starting April 15, 2024.
- B-50 and higher blends — High blend biodiesel is a minor motor fuel in terms of gallons sold and sales are assumed to be maintained at the CY 2019 level through CY 2024. The sale of B-30 gallons is assumed to increase once the 10.0 cent per gallon tax credit for that fuel begins (CY 2025 and after).
- Tax Exempt (Dyed) Gallons — Tax exempt gallons are assumed to remain at the CY 2019 level for all blends for all years.

	<u>B-0</u>	<u>B-1 to B-4</u>	<u>B-5 to B-10</u>	<u>B-11 to B-19</u>	<u>B-20 to B-49</u>	<u>B-50 to B-100</u>
Base Projection, Taxed	227.7	8.3	82.5	345.8	91.3	0.6
Base Projection, Tax Exempt	150.8	0.7	40.7	7.0	1.5	0.0
% of Base Projection, Taxed Gallons						
CY 2021	80.0%	80.0%	157.5%	100.0%	100.0%	100.0%
CY 2022	30.0%	30.0%	164.6%	100.0%	225.0%	100.0%
CY 2023	27.0%	27.0%	257.8%	60.0%	300.0%	100.0%
CY 2024	10.0%	10.0%	149.3%	40.0%	520.0%	100.0%
CY 2025	10.0%	10.0%	168.9%	30.0%	540.0%	130.0%
CY 2026	10.0%	10.0%	168.4%	30.0%	540.0%	200.0%
Tax Exempt Gallons, All Years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- Diesel (B-0) and pure biodiesel (B-100) have different energy contents by volume. Diesel contains 128,700 BTU per gallon, while B-100 contains 117,093 BTU per gallon. A vehicle that travels a given distance on B-0 will require a greater volume of fuel to travel the same distance on a biodiesel blend. This estimate assumes the same number of miles driven by Iowa retail fuel purchasers under the Bill as is assumed under current law. In order to account for the miles per gallon difference between fuel blends, this projection adjusts the overall fuel volume using the following energy factors listed below.
 - B-0 = 1.000
 - B-5 = 1.005
 - B-11 = 1.010
 - B-20 = 1.018
 - B-30 = 1.067
 - B-100 = 1.099
- The Bill changes the existing income tax credit for biodiesel sales from one based on biodiesel content to one based on biodiesel content and the time of year of the sale. The projected change in tax credits earned for each blend is calculated as follows:
 - B-0 to B-5 — No change as these fuels do not earn tax credits under current law or under the Bill.
 - B-5 to B-10 — There will be additional tax credits earned for CY 2021 equal to the increase in projected CY 2022 sales above the base gallons times the current 3.5-cent tax rate for B-5 to B-10 gallons. The increase in gallons is due to the restriction on the sale of blends below B-5 to one nozzle. This will cause an increase in the number of gallons sold that are B-5 to B-10 blends. For CY 2022 through CY 2024, tax credits are

reduced (base gallons times 3.5-cent tax rate) as the proposed law eliminates the tax credit for these blends.

- B-11 to B-19 — For CY 2022 through CY 2024, tax credits are reduced (base gallons times 5.5-cent tax rate) as the proposed law eliminates the tax credit for these blends. Then, 50.0% of CY 2022 through CY 2028 projected gallons are assumed to be winter sales, and therefore earn a 4.0-cent tax credit under the proposed law. Summer sales (the remaining 50.0%) of these blends do not benefit from a tax credit.
- B-20 to B-49 — For CY 2022 through CY 2024, tax credits are reduced (base gallons times 5.5-cent tax rate) as the proposed law eliminates the current tax credit for these blends. Then, 100.0% of CY 2022 through CY 2028 projected gallons are assumed to be summer sales and therefore earn a 6.0-cent tax credit under the proposed law.
- B-50 to B-100 — For CY 2022 through CY 2024, tax credits are reduced (base gallons times 5.5-cent tax rate) as the proposed law eliminates the current tax credit for these blends. Then, 100.0% of CY 2022 through CY 2028 projected gallons are assumed to be summer sales and therefore earn a 6.0-cent tax credit under the proposed law.
- Biodiesel tax credits are refundable and therefore 100.0% of earned credits are assumed to be redeemed. It is assumed that tax credits earned for a calendar year are redeemed 50.0% in the fiscal year that begins after the end of the calendar year and 50.0% in the succeeding fiscal year.
- Current Iowa law provides a [Biodiesel Production Credit](#) equal to 2.0 cents for every gallon of biodiesel produced in the State. A single production facility is limited to no more than \$500,000 (25.0 million gallons) in credits each calendar year. The credit sunsets at the end of CY 2024. This Bill is projected to increase the amount of biodiesel consumed in Iowa as vehicle fuel, so the Bill has the potential of increasing claims for the Biodiesel Production Credit. If the Bill increases biodiesel production at Iowa facilities that do not reach the annual credit maximum, then the Bill will also increase the tax credit amount that is earned and redeemed. For CY 2016 through CY 2020, 21.0% of credits earned were associated with facilities that did not meet the \$500,000 maximum in a given year. For this projection, it is assumed that 21.0% of the increase in biodiesel production that is the projected result of the law changes in the Bill will occur at Iowa facilities that do not meet the \$500,000 maximum for the year.
- **Appendix B — Diesel** provides blended and unblended diesel sales assumptions and the resulting projection for tax credits earned and redeemed.

Fuel Tax

- Until July 1, 2026, current Iowa law provides for differing rates of per-gallon fuel tax depending on the percent of biofuel content in the fuel.
 - Motor fuel (gasoline) classified as E-0 to E-14 is taxed at 30.0 cents per gallon, while fuel classified as E-15 or higher is taxed at 24.0 cents to 30.0 cents, depending on the percentage of gallons sold at a classification of E-15 or higher during the previous calendar year.
 - Special fuel (diesel) classified as B-0 to B-11 is taxed at 32.5 cents per gallon while fuel classified as B-11 or higher is taxed at 29.5 cents to 32.5 cents, depending on the percentage of gallons sold at B-11 or higher during the previous calendar year.
 - Beginning July 1, 2026, all gasoline is taxed at 30.0 cents per gallon and all diesel is taxed at 32.5 cents.

The Bill promotes the sale of higher blends of gasoline and diesel fuel through a combination of infrastructure grants, tax credit changes, and retail restrictions. This fiscal impact projection assumes the promotional aspects of the Bill will be successful and the fuel mix sold in Iowa during a year will shift towards higher biofuel blends. The fuel tax revenue result of the assumed changes in biofuel blends is expected to be minor until July 1, 2026, when the tax rates for all gallons will be the same. After July 1, 2026, the impact on fuel tax revenue is

projected to be positive, and this is due to the lower energy content of higher biofuel blends combined with the assumption that the Bill will not alter the number of miles lowans drive in a year.

Fiscal Impact

Gasoline and Diesel Retail and Production Tax Credits — The Bill is projected to alter the mix of fuels sold in Iowa through increased grants for retail infrastructure replacement, enhanced income tax credits for fuel retailers, and retail advertising and sales restrictions.

Table 5 displays the estimated impact by tax credit provision and by fiscal year. Since all four credits are set to sunset at the end of CY 2028 or before under current law and under the Bill, there is no projected General Fund fiscal impact beyond FY 2031.

	E-15	E-85	Biodiesel	Biodiesel Production Credit	Total
FY 2023	\$ 0.0	\$ 0.0	\$ -0.8	\$ -0.1	\$ -0.9
FY 2024	0.4	-0.3	3.8	-0.1	3.8
FY 2025	0.8	-0.7	8.7	-0.2	8.6
FY 2026	-2.4	-0.7	2.7	0.0	-0.4
FY 2027	-14.7	-2.4	-9.9	0.0	-27.0
FY 2028	-31.7	-4.1	-17.1	0.0	-52.9
FY 2029	-39.7	-4.1	-17.2	0.0	-61.0
FY 2030	-39.7	-4.1	-17.2	0.0	-61.0
FY 2031	-19.8	-2.1	-8.7	0.0	-30.6
	\$ -146.8	\$ -18.5	\$ -55.7	\$ -0.4	\$ -221.4

Gasoline and Diesel Fuel Tax — The Bill is projected to change the annual amount of gross fuel tax revenue collected. The change is due to the projected increase in the sale of fuel blends with higher biofuel content in combination with the additional gallons of blended fuel that must be purchased as a result of the lower energy content in higher biofuel blends. The combined result is a minor projected change over the combined years of FY 2021 through FY 2026. An increase in fuel tax revenue of approximately \$10.8 million per year is projected beginning with FY 2027, when all blends of taxed fuel gallons will be subject to a tax rate of 30.0 cents per gallon of gasoline and 32.5 cents for diesel.

Sources

Monthly Fuel Tax Reports
Retailers Fuel Gallons Annual Report
Iowa State University Extension ([energy content of fuels](#))
Department of Revenue
Iowa Code section [452A.3](#) (fuel tax rates)
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 12, 2021

Doc ID 12161716171

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.

www.legis.iowa.gov

Appendix A — Gasoline
Retail Gasoline Motor Fuel Sales and Income Tax Credits

Due to rounding of displayed numbers, rows may not add to totals.

Iowa Retailers Fuel Gallons Report, in Millions

Reported Retail Gallons		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Gallons
CY 2016	Actual	218.6	1,349.5	5.5	3.0	13.5	1,590.1
CY 2017	Actual	199.4	1,314.9	27.7	1.2	20.6	1,563.7
CY 2018	Actual	202.3	1,300.1	35.5	1.0	20.2	1,559.0
CY 2019	Actual	211.5	1,284.3	49.0	1.1	19.0	1,564.9

Adjusted Iowa Retailers Fuel Gallons, in Millions

		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Gallons
CY 2016	Adjusted	242.9	1,499.5	6.1	3.4	15.0	1,766.9
CY 2017	Adjusted	225.5	1,487.3	31.3	1.3	23.3	1,768.8
CY 2018	Adjusted	216.4	1,390.4	37.9	1.1	21.6	1,667.3
CY 2019	Adjusted	224.1	1,360.5	51.9	1.1	20.2	1,657.7

Current Law and Proposed Law Projected Fuel Gallons, in Millions

		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Gallons
CY 2021-28	Base Projection	224.1	1,360.5	51.9	1.1	20.2	1,657.7
CY 2021	Projected	179.3	1,406.9	51.9	1.1	20.2	1,659.3
CY 2022	Projected	89.6	1,475.9	72.6	1.6	24.2	1,663.9
CY 2023	Projected	60.5	1,505.7	72.6	1.6	24.6	1,665.0
CY 2024	Projected	44.8	1,308.4	285.2	6.2	25.0	1,669.6
CY 2025	Projected	44.8	813.9	777.9	16.8	25.4	1,678.9
CY 2026-28	Projected	44.8	293.5	1,296.5	28.0	25.8	1,688.6

Projected Increase in Retail Gallons, in Millions

		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Gallons
CY 2021	Projected	-44.8	46.4	0.0	0.0	0.0	1.6
CY 2022	Projected	-134.5	115.4	20.7	0.4	4.0	6.2
CY 2023	Projected	-163.6	145.3	20.7	0.4	4.4	7.3
CY 2024	Projected	-179.3	-52.1	233.4	5.0	4.8	11.9
CY 2025	Projected	-179.3	-546.5	726.1	15.7	5.2	21.2
CY 2026-28	Projected	-179.3	-1,067.0	1,244.7	26.9	5.6	30.9

Projected Change in Income Tax Credits Earned Due to Change in Fuel Sales, in Millions

		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Tax Credits
CY 2021	Projected	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
CY 2022	Projected	0.0	0.0	-0.8	-0.0	0.6	-0.2
CY 2023	Projected	0.0	0.0	-0.8	-0.0	0.7	-0.1
CY 2024	Projected	0.0	0.0	5.5	0.1	0.8	6.4
CY 2025	Projected	0.0	0.0	23.3	0.4	4.1	27.8
CY 2026-28	Projected	0.0	0.0	38.9	0.8	4.1	43.8

Projected Change in Income Tax Credit Redemptions, in Millions

		<u>E-0</u>	<u>E-10</u>	<u>E-15</u>	<u>E-20</u>	<u>E-85</u>	Total Tax Credits
FY 2023	Projected	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
FY 2024	Projected	0.0	0.0	-0.4	-0.0	0.3	-0.1
FY 2025	Projected	0.0	0.0	-0.8	-0.0	0.7	-0.2
FY 2026	Projected	0.0	0.0	2.4	0.1	0.7	3.2
FY 2027	Projected	0.0	0.0	14.4	0.3	2.4	17.1
FY 2028	Projected	0.0	0.0	31.1	0.6	4.1	35.8
FY 2029	Projected	0.0	0.0	38.9	0.8	4.1	43.8
FY 2030	Projected	0.0	0.0	38.9	0.8	4.1	43.8
FY 2031	Projected	0.0	0.0	19.4	0.4	2.1	21.9

Appendix B — Diesel
Retail Diesel Motor Fuel Sales and Income Tax Credits
Due to rounding of displayed numbers, rows may not add to totals.

Iowa Retailers Fuel Gallons Report, in Millions

Reported Retail Gallons		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Gallons
CY 2016	Actual	285.1	9.5	95.2	203.1	37.1	0.0	630.0
CY 2017	Actual	242.7	7.1	66.1	229.9	85.1	0.2	631.1
CY 2018	Actual	214.1	11.6	109.4	232.7	69.0	0.3	637.1
CY 2019	Actual	191.7	7.0	69.5	291.2	76.9	0.5	636.9

Adjusted Iowa Retailers Fuel Gallons, in Millions

		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Gallons
CY 2016	Adjusted	322.8	10.7	107.8	230.0	42.0	0.0	713.4
CY 2017	Adjusted	279.6	8.2	76.2	264.9	98.0	0.3	727.1
CY 2018	Adjusted	248.1	13.4	126.7	269.7	80.0	0.3	738.2
CY 2019	Adjusted	227.6	8.3	82.6	345.9	91.4	0.6	756.4

Current Law and Proposed Law Projected Fuel Gallons, in Millions

		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Gallons
CY 2019	Base Taxed	227.6	8.3	82.6	345.9	91.4	0.6	756.4
CY 2019	Base Exempt	150.8	0.7	40.7	7.0	1.5	0.0	200.7
CY 2021-28	Base Total	378.4	9.0	123.3	352.9	92.8	0.7	957.1

Taxed and Retail Motor Fuel Gallons Under Proposed Law.

CY 2021	Projected	332.9	7.3	170.8	352.9	92.8	0.7	957.4
CY 2022	Projected	219.1	3.2	176.7	352.9	207.0	0.7	959.5
CY 2023	Projected	212.3	2.9	253.6	214.6	275.5	0.7	959.6
CY 2024	Projected	173.6	1.5	164.0	145.4	476.5	0.7	961.7
CY 2025	Projected	173.6	1.5	180.2	110.8	494.8	0.9	961.7
CY 2026-28	Projected	173.6	1.5	179.8	110.8	494.8	1.3	961.7

Projected Increase in Retail Gallons, in Millions

		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Gallons
CY 2021	Projected	-45.5	-1.7	47.5	0.0	0.0	0.0	0.3
CY 2022	Projected	-159.3	-5.8	53.4	0.0	114.2	0.0	2.4
CY 2023	Projected	-166.2	-6.0	130.3	-138.4	182.7	0.0	2.5
CY 2024	Projected	-204.9	-7.5	40.7	-207.5	383.7	0.0	4.6
CY 2025	Projected	-204.9	-7.5	56.9	-242.1	401.9	0.2	4.6
CY 2026-28	Projected	-204.9	-7.5	56.5	-242.1	401.9	0.6	4.6

Projected Change in Income Tax Credits Earned Due to Change in Fuel Sale, in Millions

		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Tax Credits
CY 2021	Projected	\$ 0.0	\$ 0.0	\$ 1.7	\$ 0.0	\$ 0.0	\$ 0.0	\$ 1.7
CY 2022	Projected	0.0	0.0	-4.3	-12.4	7.3	0.0	-9.3
CY 2023	Projected	0.0	0.0	-4.3	-15.1	11.4	0.0	-8.0
CY 2024	Projected	0.0	0.0	-4.3	-16.5	23.5	0.0	2.7
CY 2025	Projected	0.0	0.0	0.0	2.2	14.8	0.1	17.1
CY 2026-28	Projected	0.0	0.0	0.0	2.2	14.8	0.1	17.2

Projected Change in Income Tax Credit Redemptions, in Millions

		B-0	B-1 to B-4	B-5 to B-10	B-11 to B-19	B-20 to B-49	B-50 to B-100	Total Tax Credits
FY 2023	Projected	\$ 0.0	\$ 0.0	\$ 0.8	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.8
FY 2024	Projected	0.0	0.0	-1.3	-6.2	3.7	0.0	-3.8
FY 2025	Projected	0.0	0.0	-4.3	-13.7	9.4	0.0	-8.7
FY 2026	Projected	0.0	0.0	-4.3	-15.8	17.5	0.0	-2.7
FY 2027	Projected	0.0	0.0	-2.2	-7.1	19.2	0.0	9.9
FY 2028	Projected	0.0	0.0	0.0	2.2	14.8	0.1	17.1
FY 2029	Projected	0.0	0.0	0.0	2.2	14.8	0.1	17.2
FY 2030	Projected	0.0	0.0	0.0	2.2	14.8	0.1	17.2
FY 2031	Projected	0.0	0.0	0.0	1.1	7.4	0.1	8.7