

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 855 – Gas Tax for Ethanol, Sunset (LSB 2805 HV.1)

Analyst: Mary Beth Mellick (Phone: (515) 281-8223) (marybeth.mellick@legis.state.ia.us)

Fiscal Note Version – Bill with Proposed Committee Amendment

Description

House File 855 with Proposed Committee Amendment adjusts the distribution percentages to the current motor vehicle fuel tax schedule, and extends the schedule from June 30, 2007, to June 30, 2012.

Background

Under current law, the tax rates for unleaded gasoline and E-10 are adjusted annually based on the number of gallons of ethanol-blended gasoline sold in the State. The tax rates are subject to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year.

The following tax schedule was implemented on July 1, 2002, and is effective through June 30, 2007. After that date, the excise tax on gasoline will revert to 20.0 cents per gallon, and E-10 will increase from 19.0 to 20.0 cents per gallon.

<u>Ethanol Marketshare Percentage</u>	<u>Ethanol Tax</u>	<u>Unleaded Gasoline Tax</u>
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

Since the tax schedule was implemented in FY 2001, the tax on unleaded gasoline has increased each year, reaching 21.0 cents per gallon in FY 2007. E-10 remains at 19.0 cents per gallon.

Under current law, regardless of the market share of ethanol-blended gasoline in CY 2006, the tax schedule will sunset on July 1, 2007, resulting in a flat tax of 20.0 cents per gallon beginning in FY 2008 for unleaded gasoline and E-10.

Legislation enacted during the 2005 Legislative Session created an independent tax structure for E-85. Prior to January 1, 2006, E-85 was taxed at the same rate as E-10, which was 19.0 cents per gallon. Beginning January 1, 2006, a 17.0-cent tax was imposed on E-85. The tax on E-85 for future years is subject to change each July 1, depending on the amount of tax paid during the previous calendar year. If the difference in the amount of tax paid in the previous calendar year compared to the amount of tax that would have been paid at the E-10 rate is equal to or greater than \$25,000, the tax on E-85 will revert to the amount specified for E-10 the following fiscal year.

Based on the amount of tax paid on E-85 in CY 2006 at 17.0 cents per gallon compared to the amount of tax that would have been paid using the tax rate imposed for E-10 (19.0 cents per gallon), the difference was greater than \$25,000. As a result, under current law, the tax for E-85 will revert to the amount specified for E-10 beginning in FY 2008, which is 20.0 cents per gallon.

Assumptions

- The total number of gallons of unleaded gasoline, E-10, and E-85 sold will increase by 1.5% annually.
- The total number of gallons of E-85 sold will increase by an estimated 1.0 million gallons annually.
- For estimating purposes, the estimated number of gallons of unleaded gasoline, E-10, and E-85 sold in a calendar year is the same number of gallons sold in the following fiscal year.
- The market share of ethanol-blended gasoline is estimated to increase from 69.3% in CY 2006 to 77.0% in CY 2010.
- The motor fuel tax schedule will be as follows:

Ethanol Market Share Percentage	Ethanol Tax	Unleaded Gasoline Tax
0% - 52.5%	19.0	20.0
52.5% - 57.5%	19.0	20.1
57.5% - 62.5%	19.0	20.3
62.5% - 67.5%	19.0	20.5
67.5% - 72.5%	19.1	20.9
72.5% - 77.5%	19.3	21.0
77.5% - 82.5%	19.5	21.0
82.5% - 87.5%	19.7	21.0
87.5% - 92.5%	19.9	21.0
92.5% - 100%	20.0	20.0

- Based on the 69.3% market share for ethanol-blended gasoline in CY 2006, unleaded gasoline will be taxed at 20.9 cents per gallon and E-10 at 19.1 cents per gallon in FY 2008.
- Based on the estimated market share percentages for CY 2007 through CY 2010 (74.0% - 77.0%), unleaded gasoline will be taxed at 21.0 cents per gallon and ethanol-blended gasoline at 19.3 cents per gallon in FY 2009 through FY 2012.
- E-85 will be taxed at the same rate as E-10 in FY 2008 through FY 2012.

Fiscal Impact

The estimated fiscal impact of HF 855 with Proposed Committee Amendment is an annual decrease to the Road Use Tax Fund resulting in a decrease in fuel tax revenues of the following amounts:

- FY 2008: \$ - 5.7 million
- FY 2009: \$ - 4.3 million
- FY 2010: \$ - 4.7 million
- FY 2011: \$ - 5.0 million
- FY 2012: \$ - 5.4 million

The attached tables provide the estimated gallons sold, the fuel tax, and the total amount collected in fuel taxes under current and proposed law.

Source

Department of Revenue, Monthly Fuel Tax Reports

Dennis C Prouty

April 18, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Table 1
Gallons Sold
Current and Proposed
Gallons in Millions

	Unleaded	E-10	E-85	Total Ethanol	Total Gallons	Ethanol Market Share
CY 2006 (Actual)	505.3	1,140.9	1.5	1,142.4	1,647.6	69.3%
CY 2007	434.8	1,235.1	2.5	1,237.5	1,672.4	74.0%
CY 2008	424.4	1,269.6	3.5	1,273.1	1,697.4	75.0%
CY 2009	413.5	1,304.9	4.5	1,309.4	1,722.9	76.0%
CY 2010	402.2	1,341.1	5.5	1,346.5	1,748.7	77.0%

Table 2
Fuel Tax
Cents per Gallon

	Current			Bill as Amended		
	Unleaded	E-10	E-85	Unleaded	E-10	E-85
FY 2008	20.0	20.0	20.0	20.9	19.1	19.1
FY 2009	20.0	20.0	20.0	21.0	19.3	19.3
FY 2010	20.0	20.0	20.0	21.0	19.3	19.3
FY 2011	20.0	20.0	20.0	21.0	19.3	19.3
FY 2012	20.0	20.0	20.0	21.0	19.3	19.3

Table 3
Total Collected in Fuel Taxes
Dollars in Millions

	Current				Bill as Amended				Difference
	Unleaded	E-10	E-85	Total	Unleaded	E-10	E-85	Total	
FY 2008	\$ 101.1	\$ 228.2	\$ 0.3	\$ 329.5	\$ 105.6	\$ 217.9	\$ 0.3	\$ 323.8	\$ - 5.7
FY 2009	87.0	247.0	0.5	334.5	91.3	238.4	0.5	330.2	- 4.3
FY 2010	84.9	253.9	0.7	339.5	89.1	245.0	0.7	334.8	- 4.7
FY 2011	82.7	261.0	0.9	344.6	86.8	251.9	0.9	339.5	- 5.0
FY 2012	80.4	268.2	1.1	349.7	84.5	258.8	1.1	344.3	- 5.4