



SF 2344 – Renewable Fuels Incentives (LSB 5886SV)

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Fiscal Note Version – New

Description

Senate File 2344 increases the tax credit rate for E-15 blended gasoline and extend provisions for the existing Biodiesel Production Payment. This Bill also defines biobutanol as a biofuel and biobutanol blended gasoline as a renewable fuel.

Background

The amount of the E-15 Tax Credit equals a constant (cents per gallon sold) rate multiplied by the total number of gallons of ethanol blended gasoline, classified as at least E-15 but less than E-85, and sold and dispensed by the retail dealer during the tax year. Under current law, the designated rate is 3.0 cents per gallon for calendar year 2014 and 2.0 cents per gallon for calendar years 2015 through 2017.

This Bill modifies the designated rate to 3.0 cents per gallon sold in period 1 (January 1 through May 31), 10 cents per gallon in period 2 (June 1 through September 15), and 3.0 cents per gallon in period 3 (September 16 through December 31) (see Table A). This change is retroactive to January 1, 2014.

This Biodiesel Production Payment was created in **SF 531 (Motor Fuels Act of 2011)**. The payment was equal to 3.0 cents per gallon produced in 2012, 2.5 cents in 2013, and 2.0 cents in 2014. The production payment does not continue after 2014 under current law.

This Bill extends the period in which the 2.0-cent production payment rate applies for five additional calendar years through 2019.

Assumptions

E-15 Tax Credit

- This analysis uses data from the 2013 Retailers Motor Fuel Gallons Annual Report prepared by the Iowa Department of Revenue, with results adjusted using fuel consumption growth forecasted by the federal Energy Information Administration.
- The Department of Revenue annual fuel report does not capture the month of sales; only calendar year sales are available. Therefore, this analysis uses an average designated rate for E-15 based on the historical distribution of Iowa monthly taxable gasoline between 2007 and 2013 in the three periods (the period starts from 2007 because Iowa gasoline sales had a very large drop in August 2006): 40.4%, 30.0%, and 29.7% for the three periods proposed in this Bill respectively. The average designated rate in a tax year equals 5.1 cents per gallon by multiplying the three-period percentage distribution and the three proposed designated rates.
- The tax credits are forecasted on a tax year basis. When converting the fiscal impacts from tax year to fiscal year, the historical distribution of claims of E-15 Tax Credits for tax year 2011 is applied. The tax year's impact was distributed among three fiscal years based on the historical data: 26.5% for the first fiscal year after the tax year, 31.9% for the second fiscal

year, and 41.6% for the last fiscal year. For example, tax year 2014's fiscal impact would be reflected in fiscal years 2015, 2016, and 2017 respectively with the percentages listed.

Biodiesel Production Payment

- This analysis is based on 2012 and 2013 Biodiesel Producer Refund claim quarterly data, which includes biodiesel produced by ten Iowa producers and the amount of refunds claimed. The Iowa Renewable Fuels Association (IRFA) on January 8, 2014, announced that Iowa biodiesel production was up 25% in 2013, setting a new record with production topping 230 million gallons of biodiesel. In addition, according to Monthly Biodiesel Production Survey from the U.S. Energy Information Administration, B100 (the industry designation for pure biodiesel) production increased 2.4% from 2011 to 2012 and 35.2% from 2012 to 2013. The jump in 2013 primarily is explained by the expiration and subsequent extension of the Federal Biodiesel and Renewable Diesel Fuels Credit. The American Taxpayer Relief Act of 2012 (Pub. L. No. 112-240) retroactively extended through December 31, 2013, the federal biodiesel fuel tax credits which had expired on December 31, 2011. Renewal of the federal credit contributed to the sharp increase in biodiesel production in 2013.
- The federal biodiesel fuel tax credit has once again expired and the Environmental Protection Agency (EPA) is currently proposing to lower the national Renewable Fuel Standard (RFS). The lower the RFS, the less renewable fuels will be required to be used in the U.S. fuel market, an action that would potentially reduce demand for biodiesel fuel. Due to the federal biodiesel policy uncertainty, the increase in biodiesel is not expected to sustain after 2013. This analysis assumes that biodiesel production will decline slightly from 2013 to 2014. In 2015 and later the annual growth rate for each biodiesel producer is assumed to be 3.5% each year. It is also assumed no new producers will emerge in the forecasted years.

Summary of Impacts

The changes to the E-15 Tax Credit and the Biodiesel Production Payment are projected to reduce net General Fund revenue by the amounts in the following table.

E-15 and Biodiesel Tax Credit Changes			
Net General Fund Impact, in Millions			
	E-15 Tax Credit	Biodiesel Production Payment	Total Fiscal Impact
FY 2015	\$ -0.1	\$ -2.6	\$ -2.7
FY 2016	-0.1	-4.4	-4.5
FY 2017	-0.2	-4.4	-4.6
FY 2018	-0.3	-4.5	-4.8
FY 2019	-0.2	-4.5	-4.7
FY 2020	-0.1	-1.5	-1.6
	<u>\$ -1.0</u>	<u>\$ -21.9</u>	<u>\$ -22.9</u>

Sources

Department of Revenue
U.S. Energy Information Administration

/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.
