Iowa's Biofuel Retailers' Tax Credits

Tax Expenditure Committee – December 3, 2014

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Outline

- Purpose of Iowa's tax credits for biofuel retailers
- Overview of Iowa's tax credits for biofuel retailers
- Analysis of the tax credits:
  - Ethanol Promotion Tax Credit
  - E85 Gasoline Promotion Tax Credit
  - E15 Plus Gasoline Promotion Tax Credit
  - Biodiesel Blended Fuel Tax Credit
- Discussion of possibility of meeting the State goal

Purpose of Iowa's Biofuel Tax Credits For Retailers

- **2006: Iowa General Assembly enacted H.F. 2754**
- **Established the goal**
  - 25 percent of all petroleum used in gasoline to be replaced by biofuels (ethanol and biodiesel) by 2020
- **Purpose of tax credits for retailers**
  - Provide tax incentives for retailers selling renewable fuels to help achieve the 2020 goal
- **Iowa currently provides four biofuel retailers tax credits**

Biofuel Promotion Programs in Iowa and Other States

- Besides Iowa, currently five other states (KS, MT, ND, OK, and SD) also provide tax credits for retailers and/or blenders

- Eight states provide tax credits for investments in biofuel infrastructure by retailers (FL, KS, LA, MT, ND, OR, SC, and WI)

- Three states (IL, MN, and MO) have biofuel mandates on fuel sales

Other Programs in Iowa Supporting Biofuels

- Iowa Renewable Fuel Infrastructure Program
  - Administrated by Department of Agriculture and Land Stewardship
  - Goal is to encourage renewable fuels upgrades by Iowa retailers
  - Total grant amount was $1.8 million for FY 2013 and $2.5 million for FY 2014
- Biodiesel Fuel Production Sales Tax Refund
  - In 2014, a qualified biodiesel producer may apply for a sales tax refund equal to 2 cents per gallon produced each quarter up to 25 million gallons each year
  - The producer must be engaged in the manufacturing of biodiesel and must have registered with the EPA as a manufacturer of biodiesel
  - The biodiesel manufactured must be used in biodiesel blended fuel
  - Refunds totaled $5.0 million for CY 2012 and $4.8 million for CY 2013

Ethanol Promotion Tax Credit (EPTC)

- Effective for ethanol sales January 1, 2009–December 31, 2020
- Tax credit equals $0.04 to $0.08 per gallon of pure ethanol sold depending on how close retailer's Biofuel Distribution Percentage is to the credit's Biofuel Threshold Percentage
- Biofuel Threshold Percentage increases on designated years and is higher for large retailers (annual sales of more than 200,000 gallons)
- Retailers can choose to calculate the credit based on sales company-wide or sales at each station
- Retailers can claim the EPTC even if the retailer claims an E15 Plus Gasoline Promotion Tax Credit and/or E85 Gasoline Promotion Tax Credit for the same tax year for the same ethanol gallons sold

Biofuel Distribution Percentage Formula For EPTC

(Example: Small Retailer in 2013)

- 1 Gallon of Pure Gasoline = 0% Ethanol and 100% Gasoline
- 1 Gallon of E10 = 10% Ethanol and 90% Gasoline
- 1 Gallon of E15Plus = 15% Ethanol and 85% Gasoline
- 1 Gallon of E85 = 79% Ethanol and 21% Gasoline
- 1 Gallon of B2 Biodiesel = 2% Biofuel and 0% Gasoline
- 1 Gallon of Pure Diesel = 0% Biofuel and 0% Gasoline

Biofuel Distribution Percentage Formula For EPTC

(Example: Small Retailer in 2013)

- 15,000 Gallons Pure Gasoline = 0 Gallons Ethanol
- 80,000 Gallons E10 = 8,000 Gallons Ethanol
- 0 Gallon E15Plus = 0 Gallons Ethanol
- 5,000 Gallons E85 = 3,950 Gallons Ethanol
- ~~5,000 Gallons B2 Biodiesel~~ = 100 Gallons Biodiesel
- ~~10,000 Gallons Pure Diesel~~ = 0 Gallons Biodiesel
- **100,000 total Gasoline Gallons** **12,050 Biofuel Gallons (12.1%)**

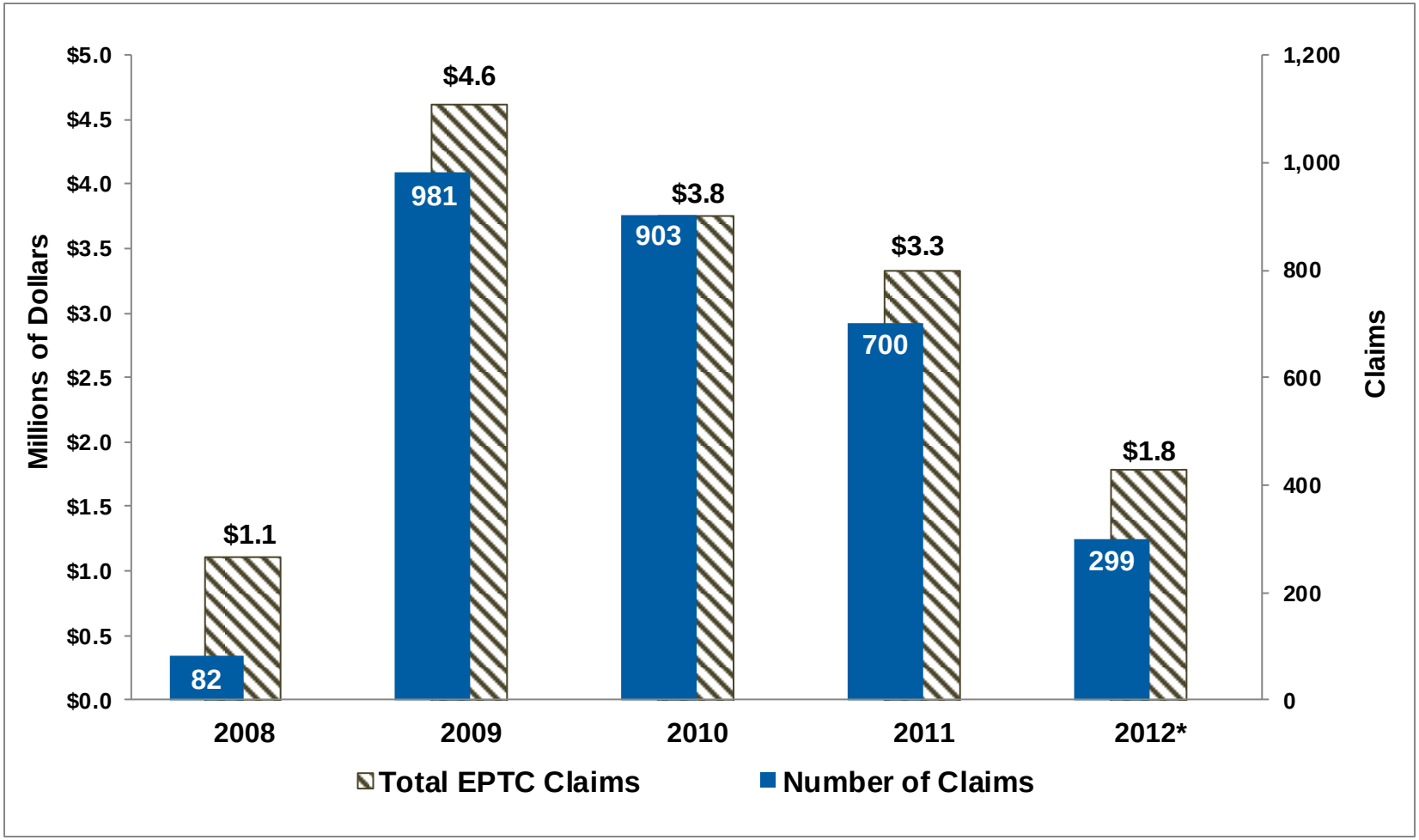
EPTC Biofuel Threshold Percentage

- Retailer has met threshold: $0.08 per gallon pure ethanol
- Retailer misses the threshold by 2 percentage points or less: $0.06 per gallon pure ethanol
- Retailer misses the threshold by more than 2 percentage points but not more than 4 percentage points: $0.04 per gallon pure ethanol
- Retailer misses the threshold by 4 percentage points or more: Not eligible for credit

Calendar Year of Sales	Biofuel Threshold Percentages	
	Large Retailers	Small Retailers
2009	10%	6%
2010	11%	6%
2011	12%	10%
2012	13%	11%
2013	14%	12%
2014	15%	13%
2015	17%	14%
2016	19%	15%
2017	21%	17%
2018	23%	19%
2019	25%	21%
2020	25%	25%
2021 and later	NA	NA

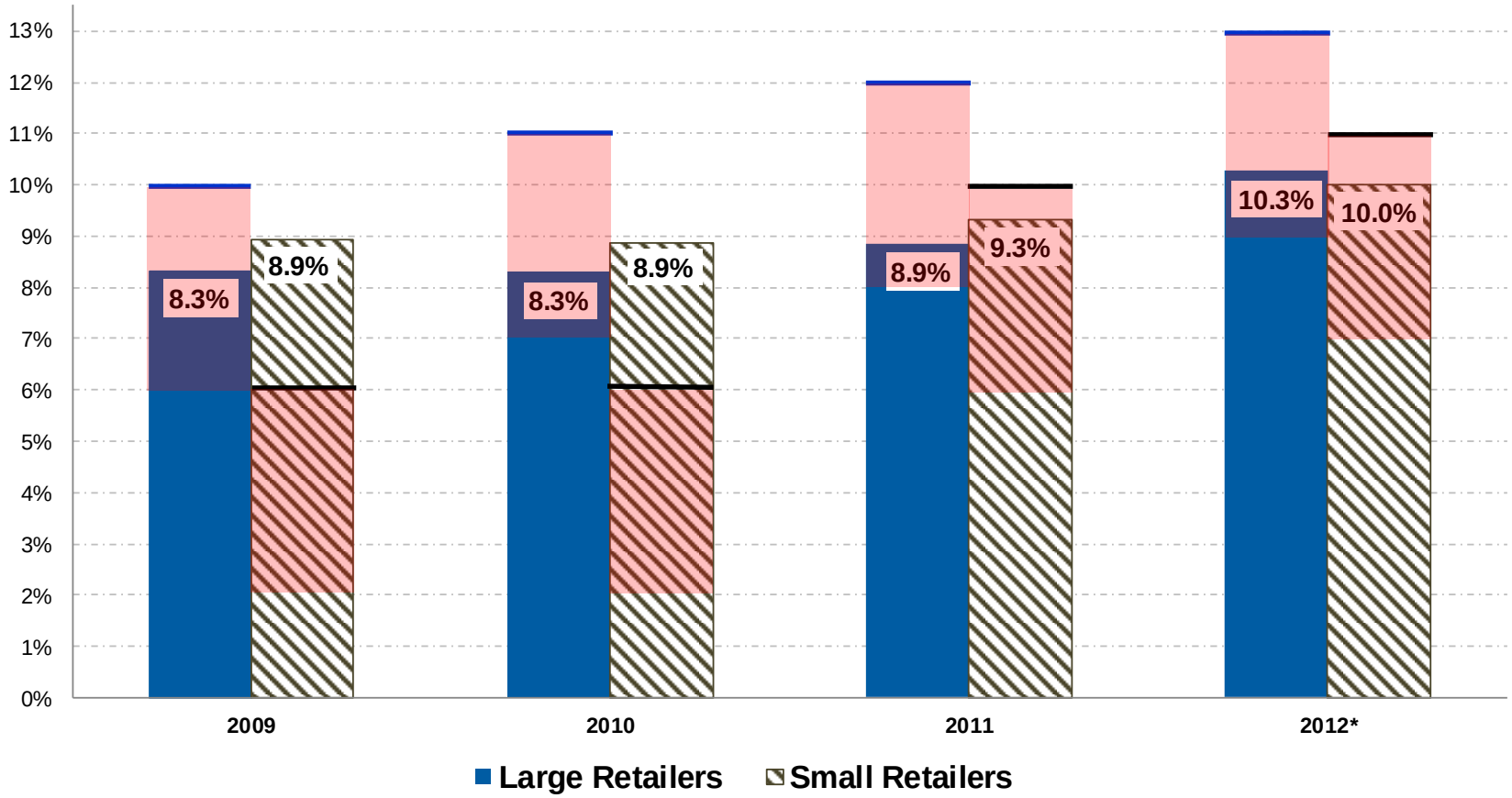
Source: Iowa Code 422.11N and 422.33 (11A).
Credit expires on January 1, 2021.

Ethanol Promotion Tax Credit Claims



Source: IA148 Tax Credits Schedule * Tax credit claims are preliminary

Median Biofuel Distribution Percentage vs. Biofuel Threshold Percentage



Source: IA137 Tax Credits Schedule * 2012 data are incomplete

Taxpayer EPTC Claims and Percent Refunded

Tax Year	Total EPTC Claims			EPTC Refund Percentage		
	Corporation	Individual	Total	Corporation	Individual	Total
2008	$1,096,166	$13,137	$1,109,303	56.7%	85.5%	57.0%
2009	$2,663,591	$1,960,901	$4,624,492	63.2%	74.2%	67.9%
2010	$2,049,831	$1,700,590	$3,750,421	50.1%	75.8%	61.7%
2011	$1,555,875	$1,771,547	$3,327,422	47.4%	88.8%	69.3%
2012*	$641,435	$1,146,442	$1,787,877	10.8%	93.0%	63.1%

Source: Iowa Department of Revenue Corporate and Individual Tax Returns.

Notes: * Tax year 2012 data are preliminary.

Individual taxpayers include a handful of fiduciary taxpayers.

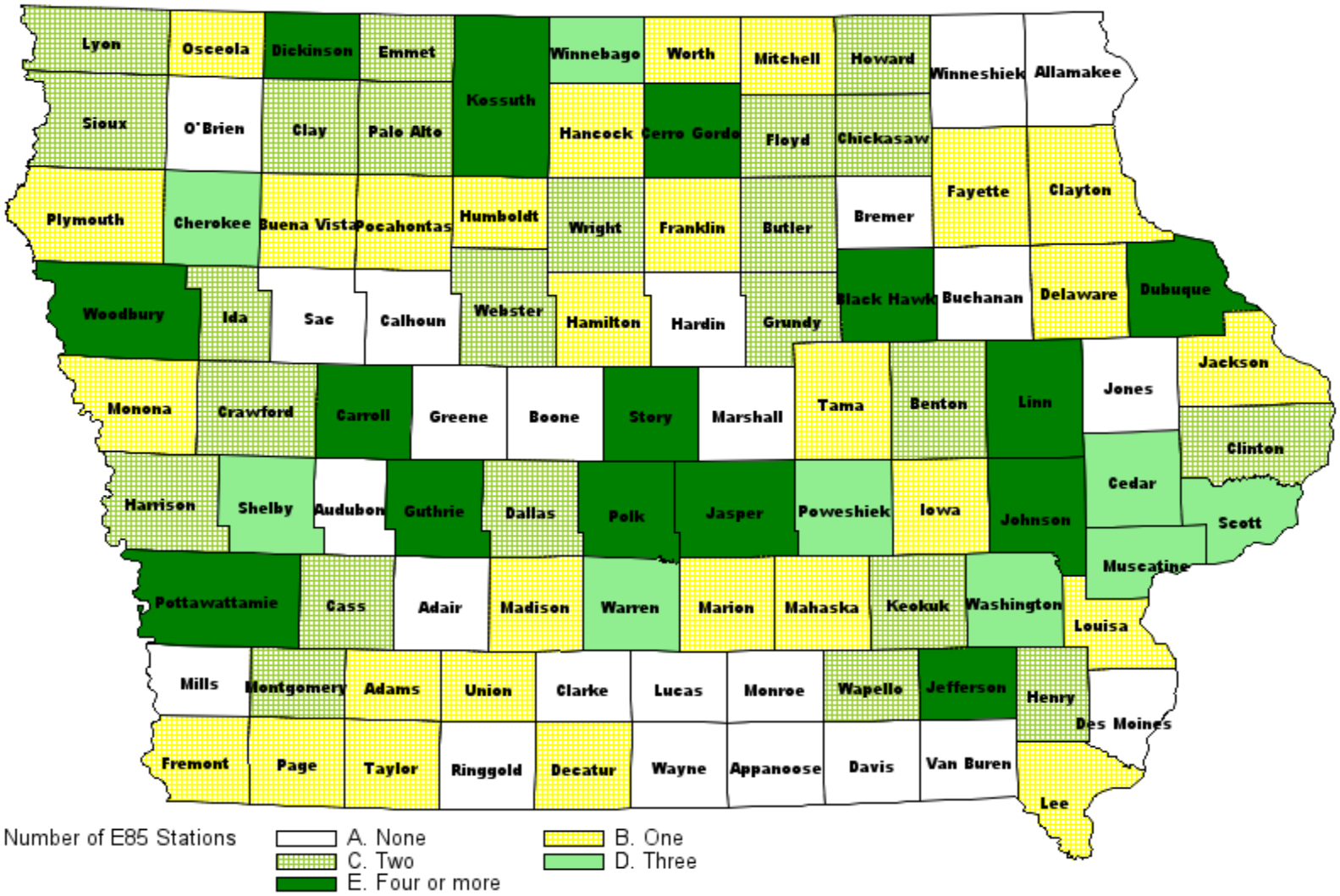
E85 Gasoline Promotion Tax Credit

- Effective for E85 sales January 1, 2006–December 31, 2017
- Ethanol blends of E70–E85
- Currently $0.16 per gallon of E85 sold

Calendar Year of Sales	Credit Per Gallon Sold
2006	$0.25
2007	$0.25
2008	$0.25
2009	$0.20
2010	$0.20
2011	$0.10
2012	$0.16
2013	$0.16
2014	$0.16
2015	$0.16
2016	$0.16
2017	$0.16
2018 and later	NA

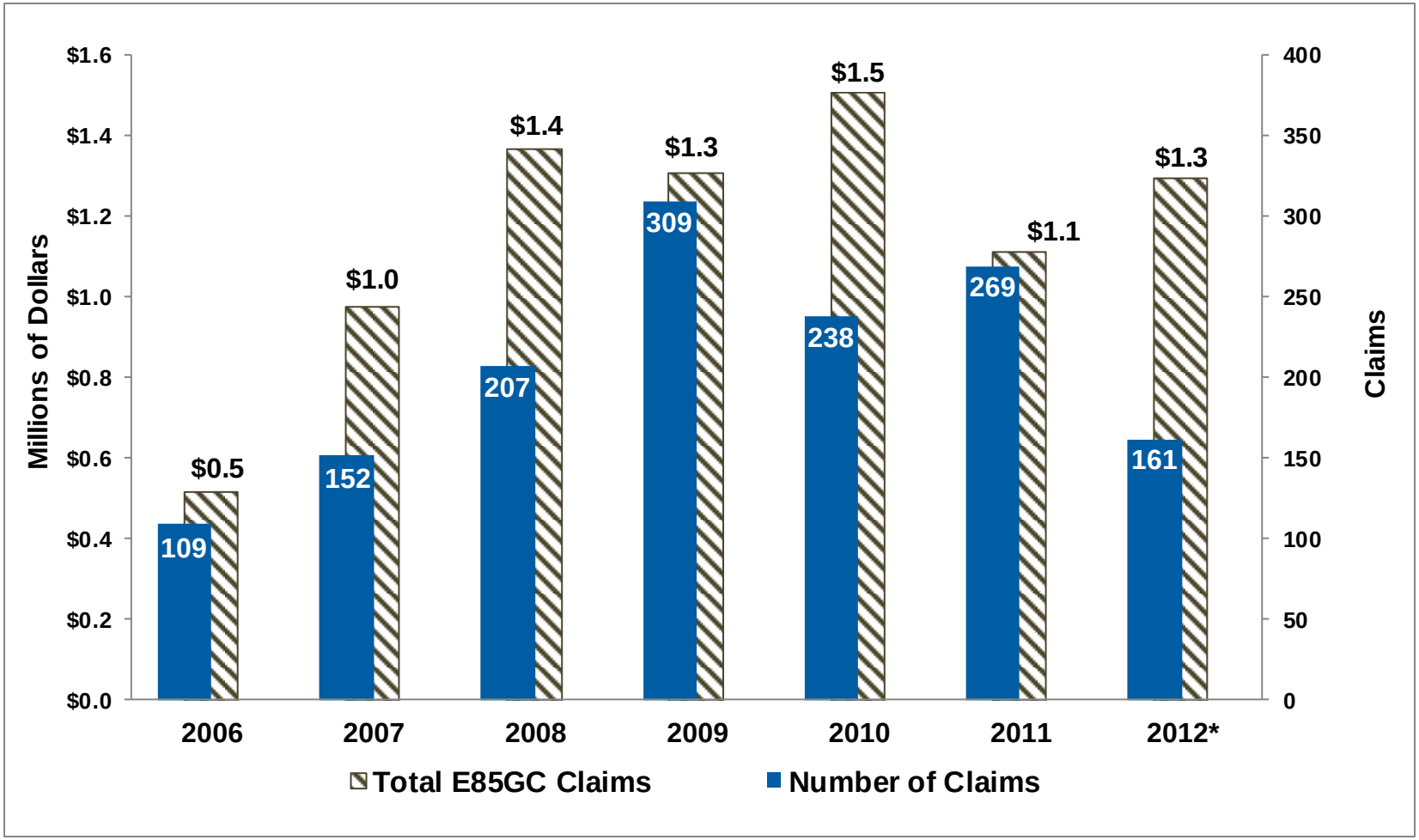
Source: Iowa Code 422.11O and 422.33(11B).

Numbers of Stations Reporting E85 Sales by County, 2013



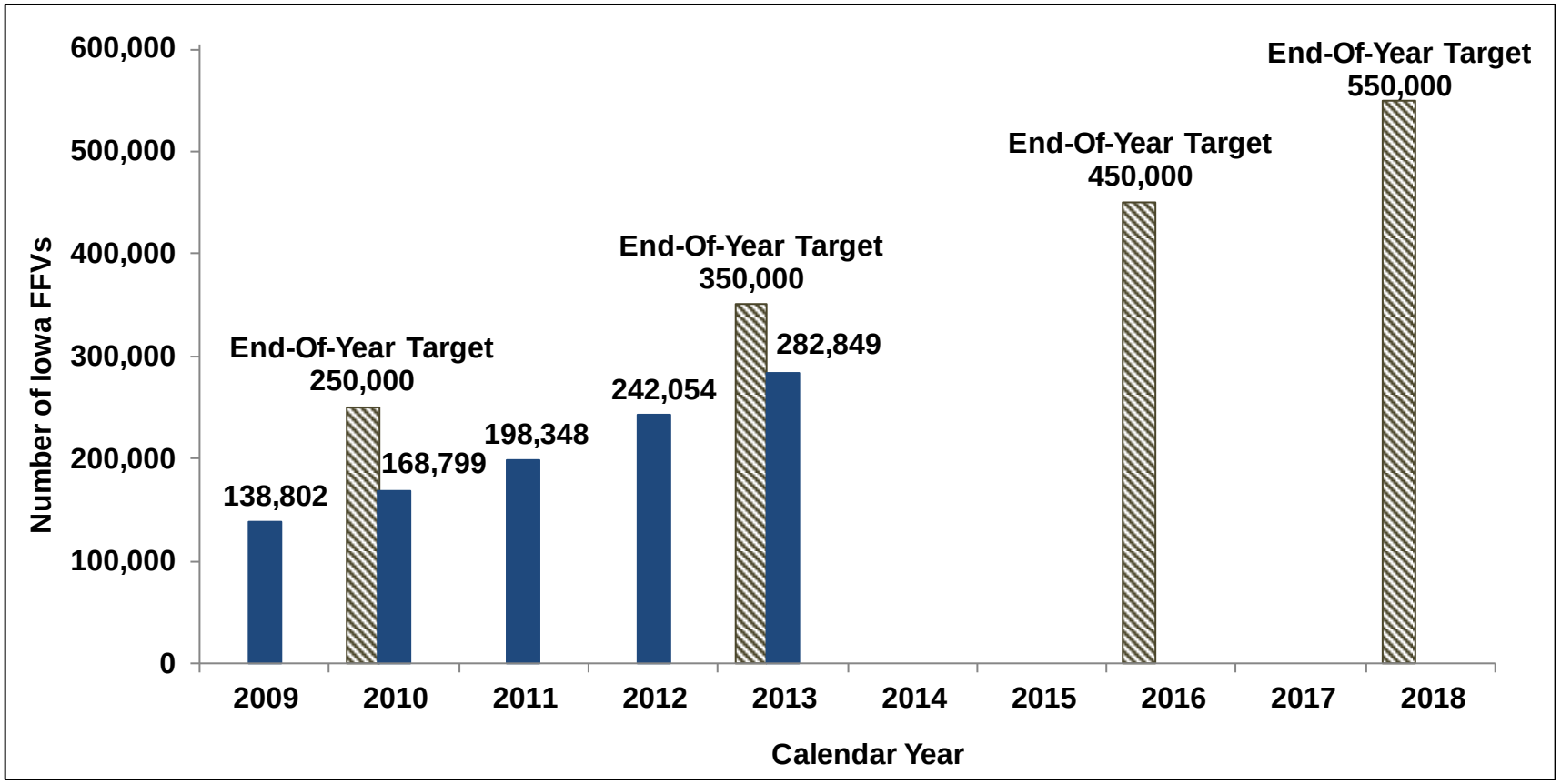
Source: 2013 Iowa Retailers Motor Fuel Gallons Annual Report

E85 Gasoline Promotion Tax Credit Claims



Source: IA148 Tax Credits Schedule * Tax credit claims are preliminary

Registered Flex Fuel Vehicles Compared to End-Of-Year Target Goals



Source: Iowa Department of Transportation

Taxpayer E85 Claims and Percent Refunded

Tax Year	Total E85 Claims			E85 Refund Percentage		
	Corporation	Individual	Total	Corporation	Individual	Total
2006	$371,883	$146,928	$518,811	28.3%	77.7%	42.3%
2007	$686,828	$289,145	$975,973	20.9%	82.5%	31.0%
2008	$546,240	$821,679	$1,367,919	45.3%	96.7%	76.2%
2009	$557,390	$750,961	$1,308,351	51.0%	90.1%	73.4%
2010	$428,181	$1,082,052	$1,510,233	37.1%	94.8%	78.4%
2011	$395,819	$716,544	$1,112,363	28.2%	91.5%	70.5%
2012*	$388,962	$905,358	$1,294,320	12.5%	88.3%	66.2%

Source: Iowa Department of Revenue Corporate and Individual Tax Returns.

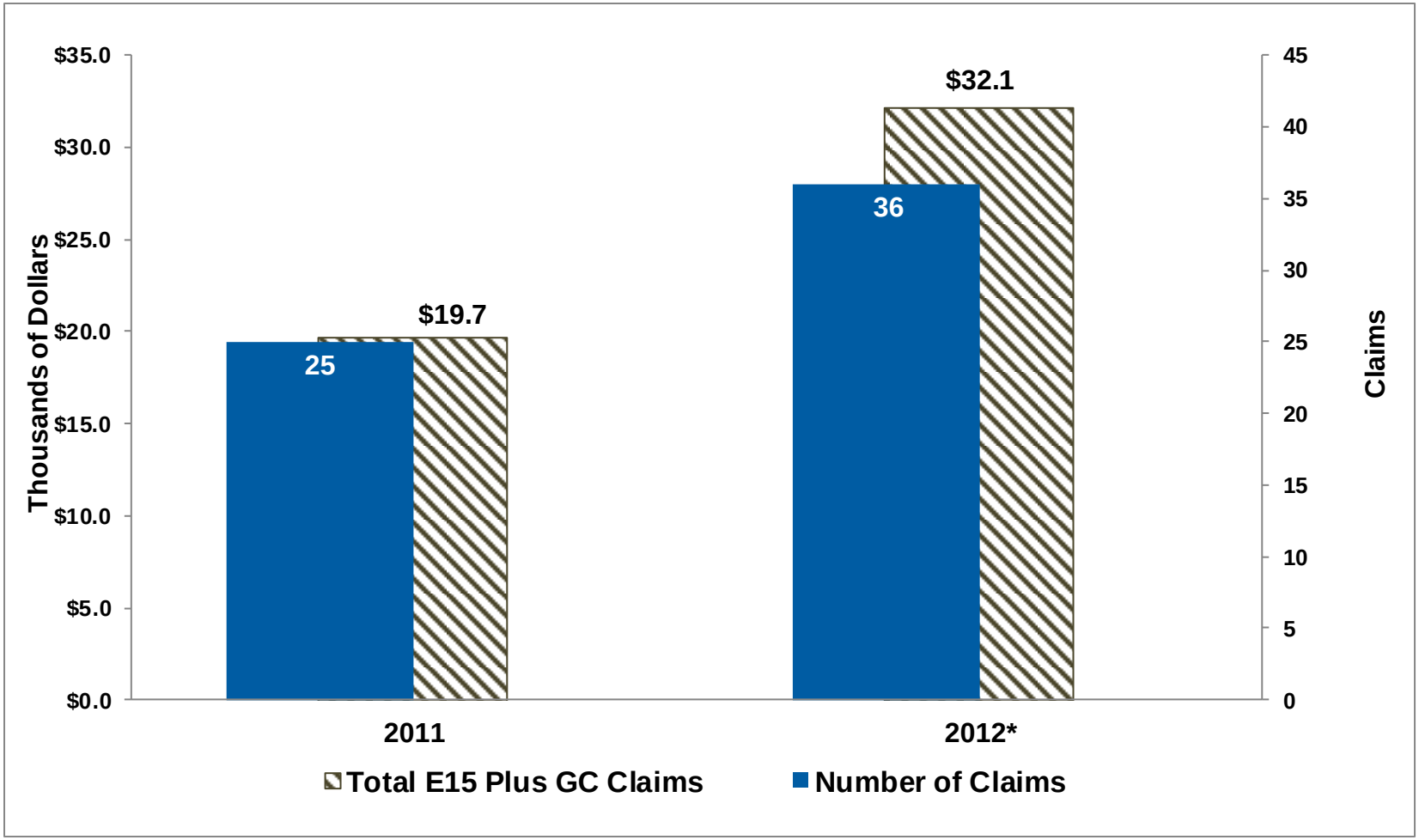
Notes: * Tax year 2012 data are preliminary.

Individual taxpayers include a handful of fiduciary taxpayers.

E15Plus Gasoline Promotion Tax Credit

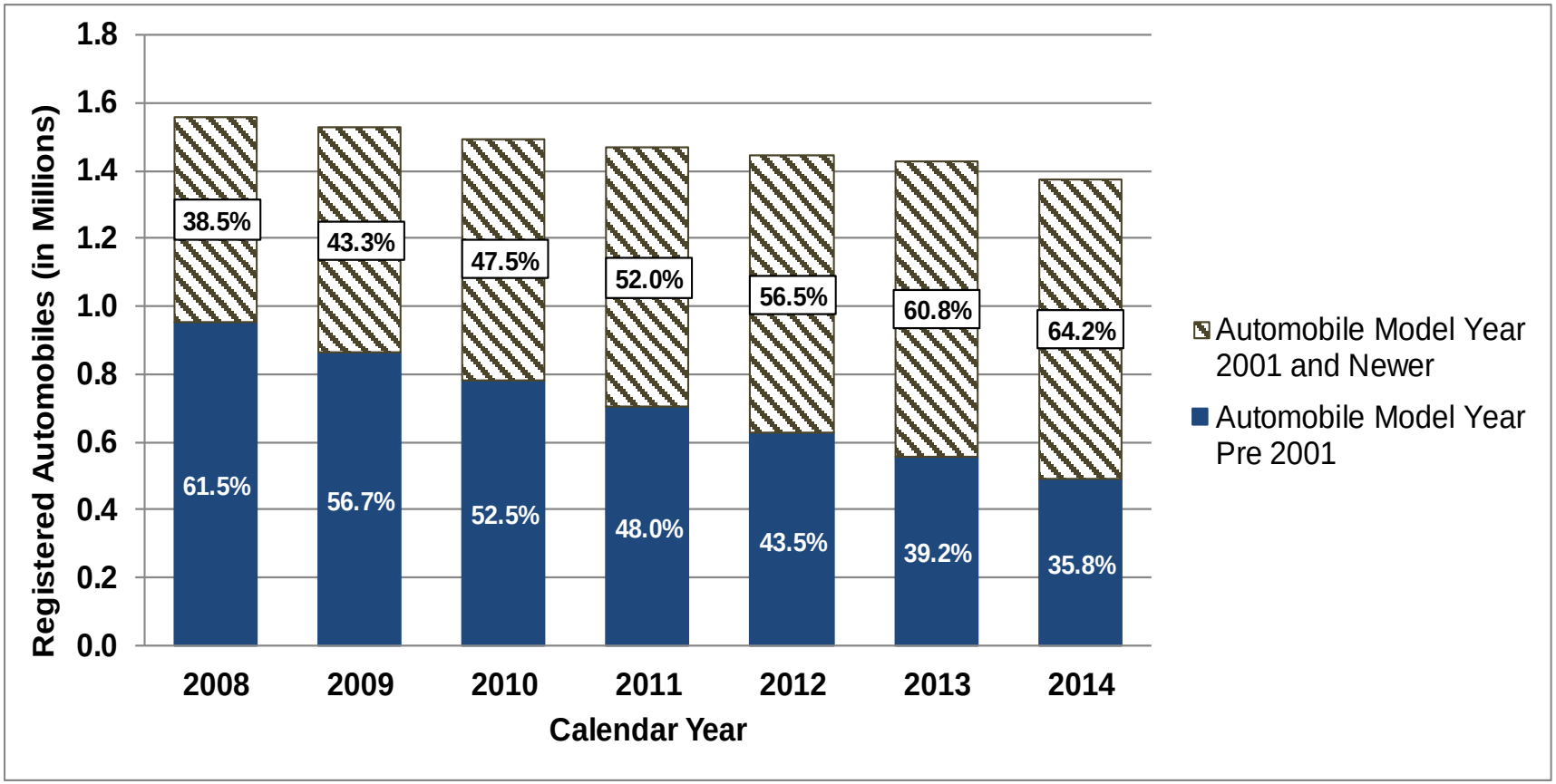
- Effective for E15 Plus sales January 1, 2011–December 31, 2017
- Ethanol blends of E15–E69
- Effective January 1, 2014, higher rate during summer (EPA requires special blending)
  - Sales from Jan 1 – May 31 and Sept 16 – Dec 31:$0.03 per gallon sold
  - Sales from June 1 – Sept 15: $0.10 per gallon sold

E15 Plus Gasoline Promotion Tax Credit Claims



Source: IA148 Tax Credits Schedule * Tax credit claims are preliminary

Registered Automobiles Compatible with E15 Fuel



Source: Iowa Department of Transportation

Taxpayer E15 Plus Claims and Percent Refunded

Tax Year	Total E15 Plus Claims			E15 Plus Refund Percentage		
	Corporation	Individual	Total	Corporation	Individual	Total
2011	$19,005	$682	$19,687	50.3%	89.3%	51.6%
2012*	$27,315	$4,819	$32,134	5.7%	50.8%	12.5%

Source: Iowa Department of Revenue Corporate and Individual Tax Returns.

Notes: * Tax year 2012 data are preliminary.

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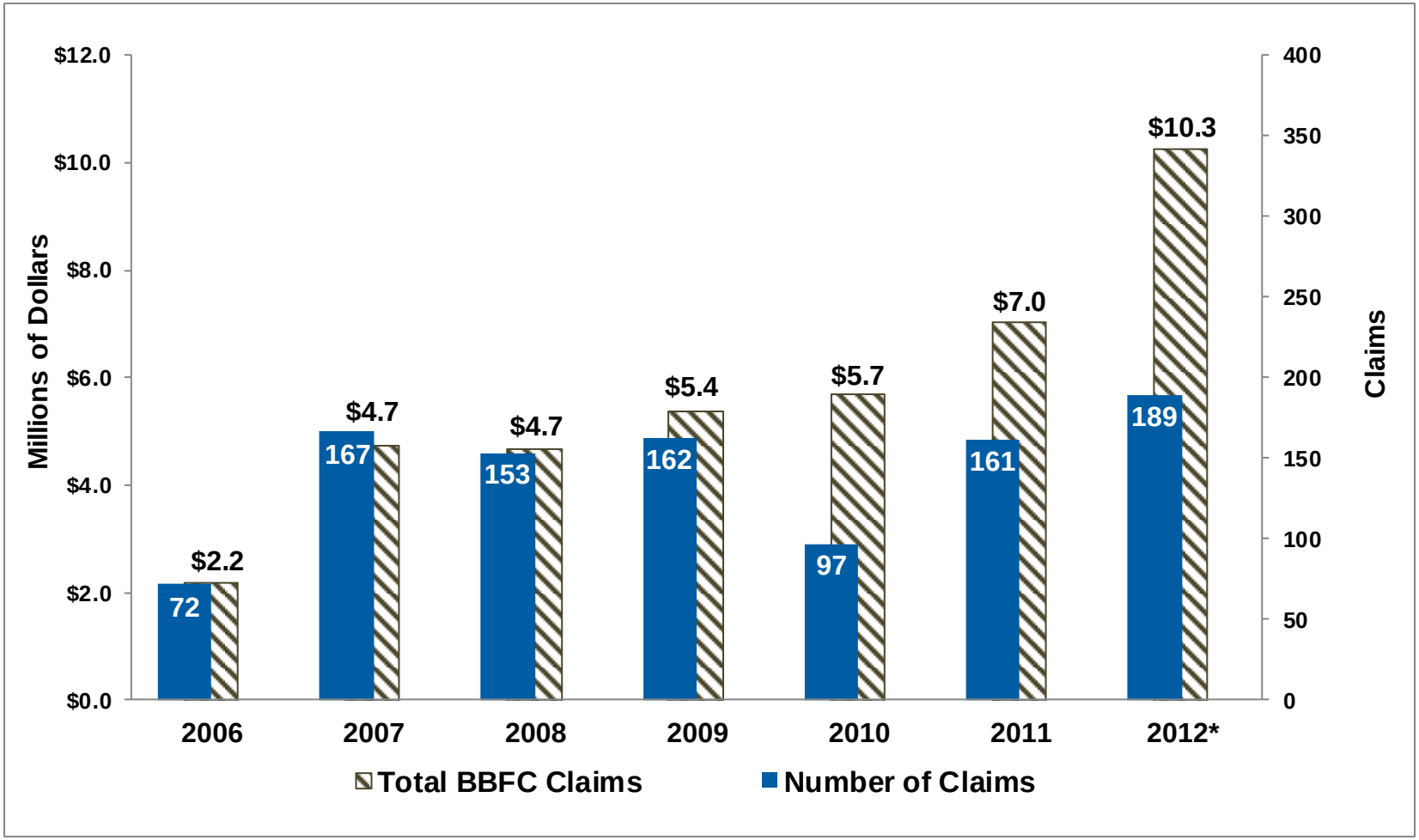
Biodiesel Blended Fuel Tax Credit

- Effective for B2 or higher sales January 1, 2006–December 31, 2012
- Effective for B5 or higher sales January 1, 2012–December 31, 2017
- Currently $0.045 per gallon companywide
- Effective 2009–2011, at least 50 percent of diesel sales must have been biodiesel sales calculated separately at retail location in the case of companies with multiple retail locations
- Effective 2012 and later, the 50 percent biodiesel sales requirement was eliminated so the BBFC applies to all B5 or higher biodiesel-blend gallons sold on a companywide basis

Biodiesel Blended Fuel Tax Credit Claims



Source: IA148 Tax Credits Schedule * Tax credit claims are preliminary

Taxpayer BBFC Claims and Percent Refunded

Tax Year	Total BBFC Claims			BBFC Refund Percentage		
	Corporation	Individual	Total	Corporation	Individual	Total
2006	$1,834,590	$338,628	$2,173,218	57.3%	56.1%	57.1%
2007	$2,327,217	$2,403,666	$4,730,883	58.1%	88.3%	64.8%
2008	$2,074,446	$2,599,177	$4,673,623	69.9%	94.6%	78.3%
2009	$2,058,459	$3,310,861	$5,369,320	85.0%	91.2%	88.0%
2010	$2,092,577	$3,601,505	$5,694,082	80.4%	91.4%	85.8%
2011	$3,006,022	$4,021,944	$7,027,966	87.4%	94.9%	91.0%
2012*	$3,216,222	$7,055,192	$10,271,414	68.9%	97.1%	84.5%

Source: Iowa Department of Revenue Corporate and Individual Tax Returns.

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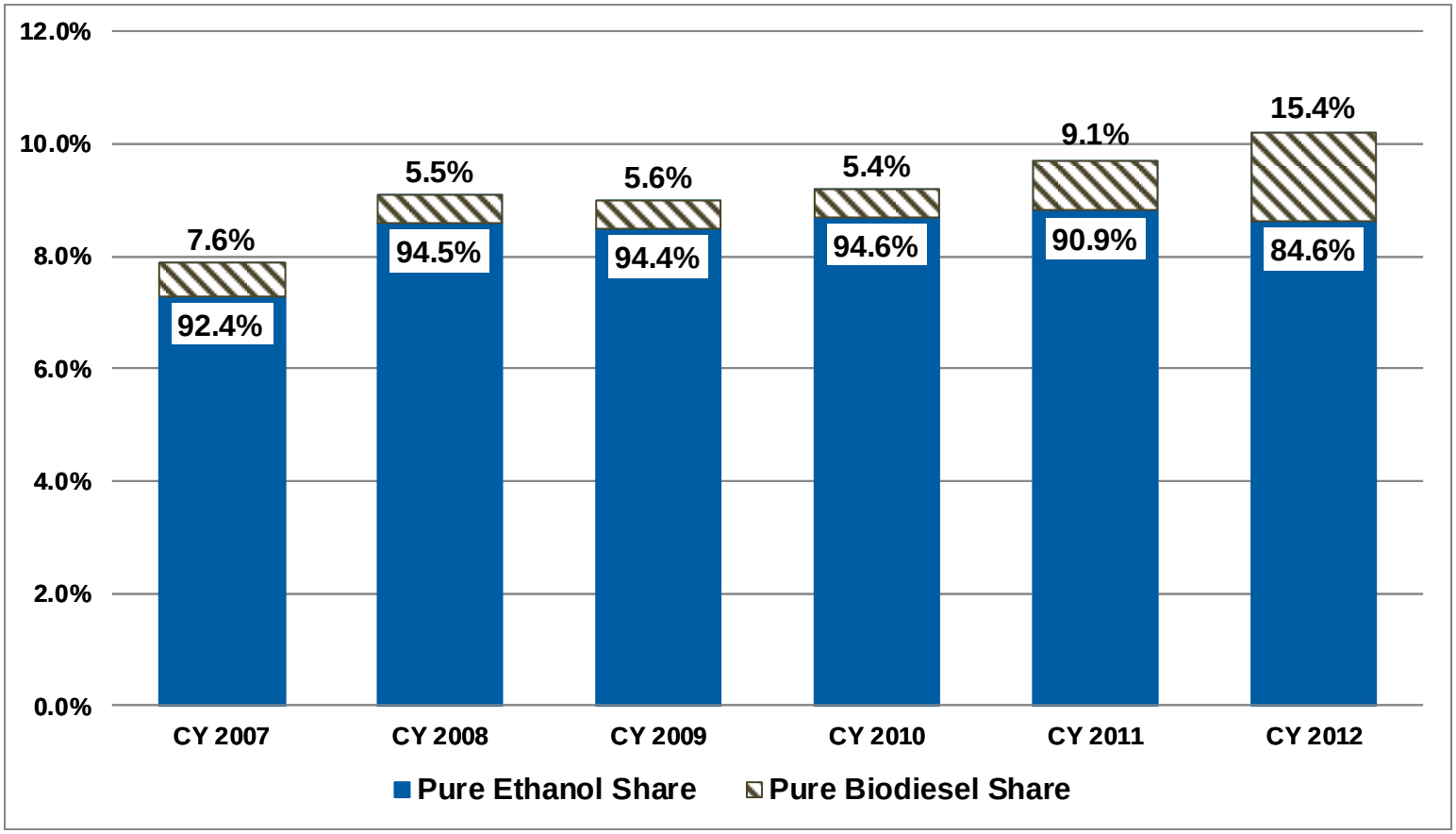
Statewide Biofuel Distribution Percentage

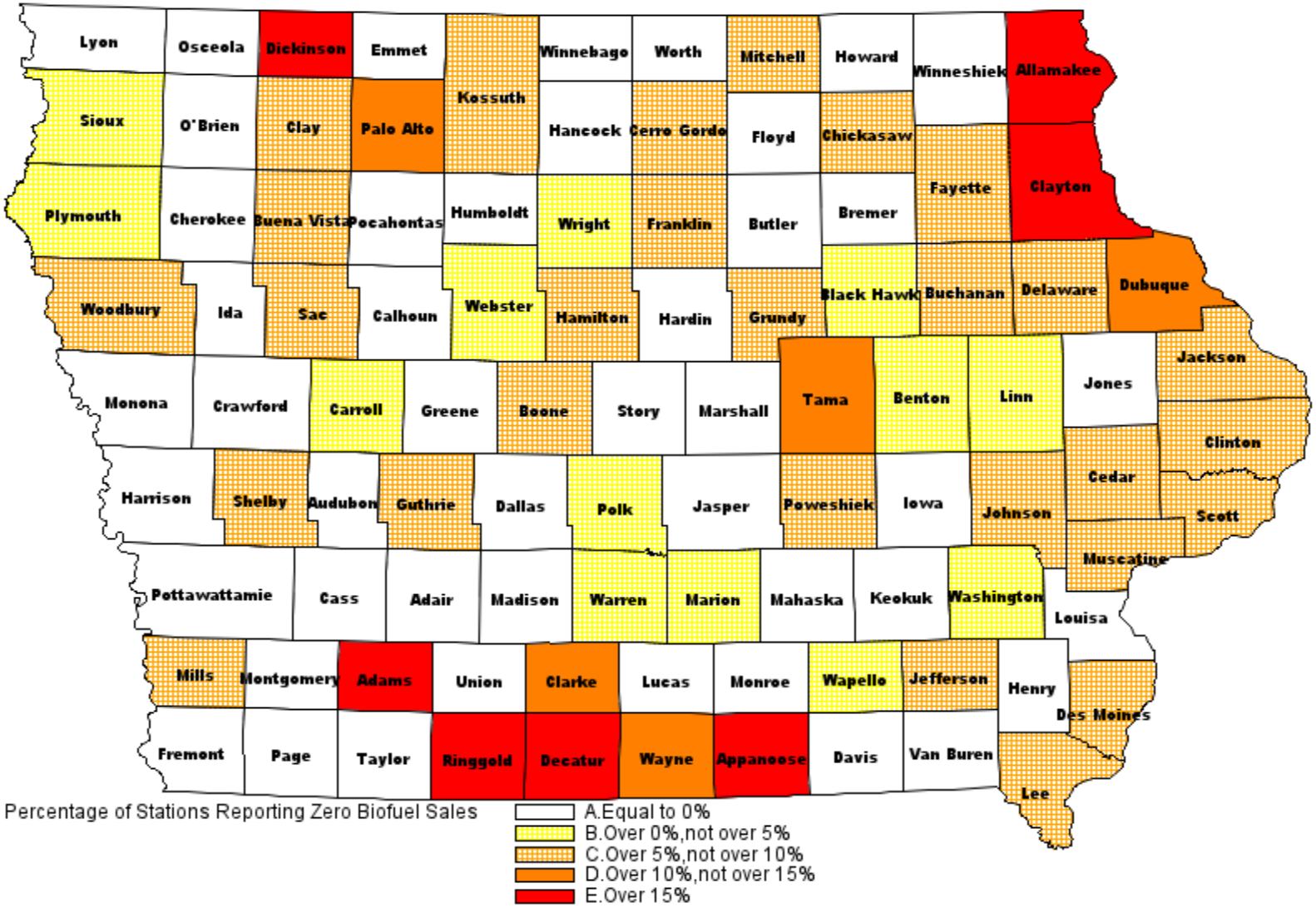


Source: Iowa Retailers Motor Fuel Gallons Annual Reports

Forecast of Iowa Biofuel Sales

- Based on over two thousand stations responding to 2013 Retailers Motor Fuel Gallons Annual Report
- Energy Information Association forecast of fuel consumption change rates
- Forecast additional stations to start selling various biofuels each year based on historical trends in Iowa
- Estimated tax credit claims and statewide biofuel distribution percentage

Percentage of Stations Reporting Zero Biofuel Sales in 2013



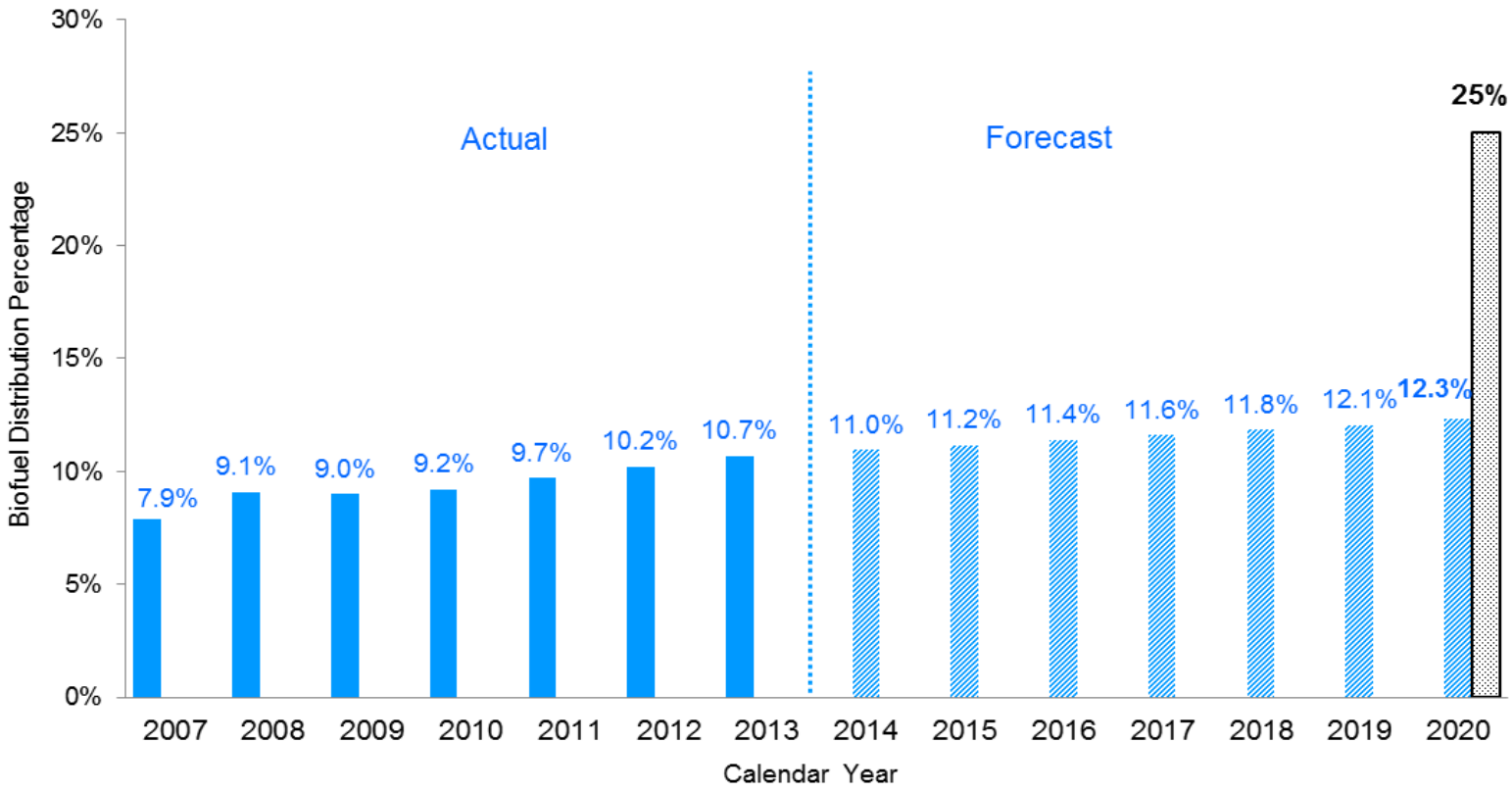
Source: 2013 Iowa Retailers Motor Fuel Gallons Annual Report

Forecast Retailer's Biofuel Tax Credit Claims

	Nominal Million $			
Tax Year	EPTC	E85GC	E15GC	BBFC
2012*	$1.8	$1.3	$0.03	$10.3
2013 (F)	**$1.5**	**$1.8**	**$0.08**	**$15.0**
2014 (F)	**$1.6**	**$2.0**	**$0.11**	**$15.2**
2015 (F)	**$1.3**	**$2.3**	**$0.12**	**$15.4**
2016 (F)	**$1.1**	**$2.6**	**$0.14**	**$15.5**
2017 (F)	**$0.9**	**$2.9**	**$0.15**	**$15.7**
2018 (F)	**$0.8**	**NA**	**NA**	**NA**
2019 (F)	**$0.8**	**NA**	**NA**	**NA**
2020 (F)	**$0.7**	**NA**	**NA**	**NA**

Source: IDR forecasting model using data from 2013 Iowa Retailers Motor Fuel Gallons Annual Report.
*** 2012 actual tax credit claims are preliminary**

Actual and Forecasted Biofuel Distribution Percentage 2007-2020



Forecast suggests the State will fall short of the 25 percent goal by 2020

Questions?

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