



# **FINAL REPORT**

## **Fuel Distribution Percentage Formula Review Committee**

**Friday, December 6, 2024**

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### **MEMBERS**

Senator Mike Klimesh, Co-chairperson  
Senator Todd E. Taylor  
Senator Dan Zumbach

Representative Brian Best, Co-chairperson  
Representative Dean C. Fisher  
Representative Adam Zabner

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### I. Background — Committee Proceedings

The Fuel Distribution Percentage Formula Review Committee was established as a permanent statutory committee pursuant to Iowa Code section 452A.3(1)(c). The committee is composed of six members of the General Assembly, including three members from each chamber. The committee is required to conduct a review of the fuel distribution percentage formulas and submit a status report to the General Assembly by January 1, every five years. The first report was filed December 10, 2019. The committee was authorized by the Legislative Council to hold one meeting.

### II. December 6, 2024, Meeting

The meeting was called to order at 1:02 p.m. in Room 102 of the State Capitol, with two members present, Representative Best and Representative Fisher, and four members participating remotely, Senator Klimesh, Senator Taylor, Senator Zumbach, and Representative Zabner. The committee elected Senator Klimesh and Representative Best permanent Co-chairpersons and adopted procedural rules. The Co-chairpersons made opening remarks.

**Presentation — Iowa Department of Transportation (DOT).** Mr. Stuart Anderson, Transportation Development Division Director, DOT, provided an overview of the variable excise tax rates for ethanol-blended gasoline and biodiesel (renewable fuels). The variable excise tax rates for certain renewable fuels were enacted as a means to incentivize increased use of renewable fuels and address the corresponding reduction in Road Use Tax Fund (RUTF) revenue losses.

The ethanol variable excise tax rate first became effective on July 1, 2002, and the rate is adjusted annually on July 1, to an amount between 24 cents and 30 cents, based on the previous calendar year's ethanol distribution percentage. The ethanol distribution percentage is the amount of ethanol-blended gasoline (E15+) distributed in Iowa as a percentage of the total amount of gasoline and ethanol-blended gasoline distributed in Iowa. Mr. Anderson noted the current ethanol variable excise tax rate is 25.5



cents per gallon due to the previous calendar-year ethanol distribution percentage being between 14 percent and 16 percent. The ethanol variable excise tax rate will sunset on June 30, 2030, at which point the fuel excise tax rate will be 30 cents per gallon for all gasoline types used in motor vehicles.

As part of the 2015 fuel tax legislation, the General Assembly established a biodiesel variable excise tax rate, between 29.5 cents and 32.5 cents, to incentivize the use of biodiesel at blends of 11 percent or greater (B11+) and to reduce the impact on RUTF revenue as usage of B11+ increased. The biodiesel variable excise tax rate became effective on July 1, 2015, and the rate is adjusted annually on July 1 based on the previous calendar year's biodiesel distribution percentage. Mr. Anderson noted the current biodiesel variable excise tax rate is 29.5 cents per gallon due to the previous calendar-year biodiesel distribution percentage being between 0 percent and 50 percent. The biodiesel variable excise tax rate will sunset on June 30, 2030, at which point the fuel excise tax rate will be 32.5 cents per gallon for all diesel fuel used in motor vehicles. Beginning July 1, 2024, the variable excise tax rate applies to biodiesel at blends of 20 percent or greater (B20+), rather than to blends of B11+ biodiesel, which will likely account for a perceived reduction in the biodiesel distribution percentage, at least initially.

Mr. Anderson provided a detailed history of the variable excise fuel tax rates, beginning in 2002, up to the current statutory requirements. Special notation was made regarding the increased ethanol-blended gasoline requirement (from E10+ to E15+) in 2015 and the increased biodiesel blends (from B11+ to B20+) in 2022. Additionally, the data regarding the fuel distribution percentage has improved following a change in 2020 requiring retailers to report information directly to the Department of Revenue (DOR).

**Presentation — Iowa Department of Revenue.** Mr. Matt Bishop, Policy Director, Sales and Excise Taxes, DOR, and Mr. Scott Fisher, Management Analyst, Alcohol and Tax Compliance Division, DOR, presented on the taxation of renewable fuels, including the transfer of moneys to the RUTF and the method for determining the fuel distribution percentages. Mr. Fisher pointed out the effect of the variable



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excise tax rate on ethanol-blended gasoline, which resulted in collecting approximately \$8.9 million less than if the E15+ gasoline was taxed at the rate for all other gasoline. He noted that during each of the previous four years, the number of gallons of E15+ gasoline sold increased, along with the distribution percentage. Mr. Fisher next analyzed the effect of the variable excise tax rate on biodiesel, which resulted in collecting approximately \$2.7 million less than if the B20+ was taxed at the rate for all other diesel. Mr. Fisher noted that in each of the previous four years, the distribution percentage for biodiesel exceeded 50 percent, but as a result of increasing the minimum blend from B11+ to B20+, the percentage dropped to below 15 percent. Mr. Fisher also noted that the variable excise biodiesel tax rate schedule was not amended when the minimum blend increased from B11+ to B20+. Based on current-year projections, the sales of B20+ biodiesel will likely not increase to a level required (at least 50 percent) for a step-up in the variable biodiesel excise tax rate in the near future.

Mr. Bishop provided a general overview of nationwide average fuel prices during the previous five-year period, noting that the recent average prices are nearing the average amounts for both gasoline and diesel from five years ago, following a period of volatility during and after the COVID-19 pandemic. Additionally, he spoke to the recent legislative efforts relating to improving the E-15 access standard and promoting the installation of conforming fuel pumps at retail locations, and the state and federal cost-share assistance programs and applicable timeline.

Mr. Fisher discussed special considerations surrounding renewable diesel. Renewable diesel meets the American Society for Testing and Materials' standard for petroleum diesel but does not have the same fuel tax rate as biodiesel even though it is made from the same feedstocks. If someone delivered renewable diesel in Iowa, it would be reported and taxed as regular petroleum diesel at the higher fuel tax rate rather than the rate for biodiesel. Today, there is no way to identify and report renewable diesel differently from petroleum diesel.



The DOR now uses distribution percentages based on gallons reported as part of each retailer's annual report, which is seen as more accurate than the previous method of using monthly reports. Following a legislatively enacted penalty for late or nonfiled reports, retailers responded with an 84 percent response rate in 2023, up from 71 percent in the prior year.

**Public Comment.** The committee received public comment through written submission from Mr. Nathan Hohnstein, Policy Director, Iowa Renewable Fuels Association.

**Committee Discussion.** The committee considered statements from the DOT indicating the variable excise tax rates on renewable fuels have helped reduce additional losses to the RUTF and statements from DOR suggesting further studies and possible amendments to the biodiesel variable excise tax schedule to account for B20+ biodiesel sales, rather than B11+ biodiesel sales.

### III. Committee Recommendation

The committee agreed to forward the committee's final report to the General Assembly for further consideration. The committee noted that another committee meeting and report is required in five years and prior to the sunset date for the current variable excise renewable fuel tax rates.

### IV. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency.

The materials may be accessed from the "Committee Documents" link on the committee's Internet site:

[www.legis.iowa.gov/committees/committee?ga=90&groupID=33680](http://www.legis.iowa.gov/committees/committee?ga=90&groupID=33680)

1. Final Report
2. Committee Rules
3. Presentation: Iowa Department of Transportation and Iowa Department of Revenue



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4. Public Comment: Mr. Nathan Hohnstein, Policy Director, Iowa Renewable Fuels Association