

JAN 14 2004
Agriculture

HOUSE FILE 2026

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TYMESON, PAULSEN, ROBERTS,
VAN ENGELENHOVEN, and HAHN

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the excise tax imposed upon certain ethanol
2 blended motor fuel.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF-2026

1 Section 1. Section 452A.3, Code 2003, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 1B. An excise tax shall not be imposed on
4 ethanol blended gasoline that contains at least eighty-five
5 percent ethanol, according to standards established by rules
6 adopted by the department of agriculture and land stewardship
7 pursuant to chapter 214A.

8 EXPLANATION

9 This bill amends provisions in Code section 452A.3 that
10 impose an excise tax on each gallon of motor fuel sold in the
11 state. The general rate is 20 cents per gallon, but there are
12 a number of exceptions, including an exception for ethanol
13 blended gasoline. Ethanol blended gasoline is motor fuel
14 containing at least 10 percent alcohol. Until June 30, 2007,
15 the rates for gasoline which is blended with ethanol and motor
16 fuel which is unblended are adjusted each year based on the
17 number of gallons of ethanol blended gasoline that are
18 distributed in this state as expressed as a percentage of the
19 total number of gallons of motor fuel distributed in this
20 state.

21 The bill provides another exception for ethanol blended
22 gasoline which does not expire on a date certain. The bill
23 exempts the imposition of the tax for so-called "E-85
24 gasoline" (motor fuel that is blended with at least 85 percent
25 ethanol). Under Code section 214A.2, the department of
26 agriculture and land stewardship is authorized to adopt rules
27 regulating the specifications of motor fuel or oxygenate
28 octane enhancers.

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**Fiscal Services Division
Legislative Services Agency
Fiscal Note**

HF 2026 – E-85 Proposal (LSB 5184 YH)

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

Fiscal Note Version – New

Requested by Representatives Dwayne Alons, Mark Kuhn, and Henry Rayhons

Description

House File 2026 eliminates the excise tax on E-85 gasoline (motor fuel containing at least 85.0% ethanol).

Assumptions

1. Under current law, from FY 2003 through FY 2007, tax rates imposed on ethanol-blended gasoline and regular gasoline are adjusted each year based on the number of gallons of ethanol-blended gasoline sold in Iowa. The tax rates are subject to change at the beginning of each fiscal year, based on the gallons of ethanol-blended gasoline sold between January 1 and December 31 of the previous year. Effective FY 2008, the excise tax on ethanol-blended gasoline will increase from 19.0 cents per gallon to 20.0 cents per gallon.
2. Under current law, an individual or corporate income tax credit equal to 2.5 cents is provided for each gallon of ethanol sold at a retail service station above a 60.0% threshold. The threshold is calculated by dividing the total number of ethanol gallons sold in a calendar year by the total number of ethanol and gasoline gallons sold at that station during the same year. The tax credit was first available for ethanol gallons sold in calendar year 2002.
3. The market share of ethanol-blended fuel increased 12.4% from CY 2002 to CY 2003. If the market share continues to increase by 12.4% annually, ethanol-blended and regular fuel will incur the following percentage increases and tax rates:

**Fuel Tax Rates Based on Market Share
of Ethanol-Blended Fuel**

Ethanol Market Share		Tax Rates		
			Ethanol	Gasoline
CY 2004	70.1%	FY 2006	19.0 cents	21.0 cents
CY 2005	78.8%	FY 2007	19.3 cents	20.8 cents
CY 2006	88.6%	FY 2008	19.7 cents	20.4 cents
CY 2007	99.6%	FY 2009	20.0 cents	20.0 cents

4. In winter months, E-85 fuel in Iowa is blended at between E-70 and E-75. The number of gallons consumed of each fuel type is unknown. In CY 2003, an estimated 80,000 gallons of E-70 to E-75 and E-85 fuel were sold.
5. In CY 2003, if E-85 fuel was consumed in half of June, all of July and August, and half of September, approximately 27,000 gallons of E-85 was sold in Iowa.
6. If Iowa's consumption of E-85 fuel increases 50.0% in the first year following elimination of the excise tax, and increases 25.0% annually in subsequent years, total consumption of E-85 fuel is estimated to increase in the following amounts:
 - CY 2004 – 20,000 gallons (July 1, 2004 – Dec. 31, 2004: 40,500 gallons x 1/2)
 - CY 2005 – 51,000 gallons

- CY 2006 – 63,000 gallons
 - CY 2007 – 79,000 gallons
7. Much of the federal highway funding distributed to states is based on the amount of federal gas tax remitted to the Federal Highway Trust Fund. Because the federal tax on ethanol is 5.2 cents per gallon less than regular gasoline, an increase in the consumption of ethanol in Iowa decreases the amount of federal highway funds that Iowa will receive. The consumption of E-85 gasoline is so small, however, that it would have minimal impact on Iowa's share of federal highway funds.
 8. Since 1997, Minnesota has taxed ethanol-blended fuels at 14.3 cents per gallon, while regular gasoline is taxed at 20.0 cents per gallon. From 1997 to 1998, ethanol-blended fuel consumption in Minnesota increased 528.0%, and has continued to increase at least 84.0% annually since then. The number of E-85 flexible fuel vehicles in Minnesota has increased from an estimated 1,000 vehicles in 1997 to nearly 100,000 currently. The number of E-85 fueling sites has increased from nine to 84. In the last two years, the retail price of ethanol-blended gasoline in Minnesota has averaged between 15.0 and 30.0 cents less than regular fuel.

Fiscal Impact

The fiscal impact of House File 2026 is an estimated decrease in motor fuel tax revenues to the Road Use Tax Fund in the following amounts:

- FY 2005 – \$5,000 (27,000 gallons x .19)
- FY 2006 – \$4,000 (20,000 gallons x .19)
- FY 2007 – \$10,000 (51,000 gallons x .193)
- FY 2008 – \$13,000 (63,000 gallons x .197)
- FY 2009 – \$16,000 (79,000 gallons x .20)

Federal highway funds are anticipated to decrease, however, the impact is anticipated to be minimal.

Sources

Department of Transportation
 Department of Natural Resources
 Department of Revenue
 American Lung Association of Minnesota
 Iowa Corn Growers Association

Dennis C Prouty

February 16, 2004

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.

**Fiscal Services Division
Legislative Services Agency
Fiscal Note**

HF 2026 – E-85 Ethanol Blend (LSB 5184 YH.1)

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

Fiscal Note Version – Revised

Requested by Representatives Dwayne Alons, Mark Kuhn, and Henry Rayhons

Description

House File 2026 eliminates the excise tax on E-85 gasoline (motor fuel containing at least 85.0% ethanol).

Assumptions

1. Under current law, from FY 2003 through FY 2007, tax rates imposed on ethanol-blended gasoline and regular gasoline are adjusted each year based on the number of gallons of ethanol-blended gasoline sold in Iowa. The tax rates are subject to change at the beginning of each fiscal year, based on the gallons of ethanol-blended gasoline sold between January 1 and December 31 of the previous year. Effective FY 2008, excise tax on regular gasoline will return to 20.0 cents per gallon, and ethanol-blended gasoline will increase from 19.3 cents per gallon (effective FY 2007) to 20.0 cents per gallon.
2. Under current law, an individual or corporate income tax credit equal to 2.5 cents is provided for each gallon of ethanol sold at a retail service station above a 60.0% threshold. The threshold is calculated by dividing the total number of ethanol gallons sold in a calendar year by the total number of ethanol and gasoline gallons sold at that station during the same year. The tax credit was first available for ethanol gallons sold in calendar year 2002.
3. The market share of ethanol-blended fuel increased 12.4% from CY 2002 to CY 2003. If the market share continues to increase by 12.4% annually, ethanol-blended and regular fuel will incur the following percentage increases and tax rates:

**Fuel Tax Rates Based on Market Share
of Ethanol-Blended Fuel**

Ethanol Market Share		Tax Rates		
Calendar Year	Percent	Fiscal Year	Ethanol	Gasoline
CY 2004	70.1%	FY 2006	19.0 cents	21.0 cents
CY 2005	78.8%	FY 2007	19.3 cents	20.8 cents
CY 2006	88.6%	FY 2008	20.0 cents	20.0 cents
CY 2007	99.6%	FY 2009	20.0 cents	20.0 cents

4. In winter months, E-85 fuel in Iowa is blended at between E-70 and E-75. The number of gallons consumed of each fuel type is unknown. In CY 2003, an estimated 80,000 gallons of E-70 to E-75 and E-85 fuel were sold.
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 Department of Natural Resources
 Department of Revenue
 American Lung Association of Minnesota
 Iowa Corn Growers Association

Dennis C Prouty

February 23, 2004

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