



September 18, 2019

Members of the Fuel Distribution Percentage Formula Review Committee:

RE: Biodiesel Fuel Tax Differential

The Iowa Biodiesel Board (IBB) looks forward to working with you as the Committee begins their statutory charge to review the fuel distribution formula in Iowa Code section 452A.3. The IBB represents the biodiesel industry in Iowa, from the farmers who grow the feedstock, to production, through distribution to end users. The IBB works to promote the commercial and economic success of biodiesel in Iowa.

Iowa currently has 11 biodiesel plants which produced almost 365 million gallons of pure biodiesel in 2018. **Biodiesel is the only advanced biofuel that has reached nationwide commercial production across the United States.** Advanced biofuels reduce lifecycle emissions by more than 50 percent compared to petroleum and are the optimal alternative fuel as defined by federal law. Iowa is the leading biodiesel-producing state in the nation, with biodiesel supporting 4,700 full-time equivalent jobs in our state.

In 2015, The IBB was actively involved in the passage of SF 257 which increased Iowa's fuel tax and amended Iowa Code section 452A.3. The IBB worked with legislators and stakeholders to draft the language currently contained in Iowa Code section 452A.3(6)a(2) which created the current fuel tax differential between diesel fuels based on the biodiesel percentage being 11% or higher (B-11). This provision is one of the specific areas to be reviewed by the Committee.

For the reasons outlined below, the IBB respectfully requests that the Committee support continuing the biodiesel fuel tax differential as currently enacted by either removing or extending the existing sunset. The IBB believes the fuel tax differential is a necessary component of Iowa's biodiesel promotion program and is key to continuing to keep Iowa retailers competitive against other states that provide biofuel incentives.

We hope to continue our discussions with the Committee on the importance of the fuel tax differential to Iowa's economy and the positive impact it has on Iowans.

Respectfully,

A handwritten signature in black ink, reading "Grant Kimberley".

Grant Kimberley
Director of Market Development / Iowa Soybean Association
Executive Director / Iowa Biodiesel Board

History of the B-11 Fuel Tax Differential:

When the legislature considered increasing the fuel tax in 2015, the IBB, along with other biofuel groups worked with the legislature to create a fuel tax differential in diesel motor fuel based upon the percentage of biodiesel in the fuel. To increase the number of pure biodiesel gallons sold in Iowa, and to match programs in other states, the legislature established a differential based upon blends of B-11 or higher. The tax differential is a maximum of \$0.03 and declines to zero as the percentage of B-11 blends sold exceeds 50% of the clear diesel market. In 2018, sales of B-11 were 47.4% of clear biodiesel sales. The current differential will sunset on June 30, 2020.

In anticipation of this Committee's review and the approaching sunset, the IBB worked with other stakeholders last session to develop SF 628. This legislation extends the fuel tax differential's sunset to June 30, 2026. The legislation also specifies that the data to be used by the Department of Revenue to determine the percentage of diesel gallons of B-11 or higher shall be the Retailers Fuel Gallons Report in Iowa Code section 452A.33. IBB is supportive of the language contained in SF 628 and the extended sunset date.

Iowa's Other Biodiesel Programs:

In addition to the fuel tax differential, Iowa has several other programs that work synergistically to promote sales of biodiesel in Iowa. Iowa has two tax incentives that support increased biodiesel sales. The Biodiesel Blended Fuel Tax Credit, reformed and reauthorized by the legislature in 2016, creates an income tax credit for retailers of \$0.035 on blends of B-5 or greater and a credit of \$0.055 on blends of B-11 or greater.

The second tax incentive is the Biodiesel Production Sales Tax Refund, which provides a sales tax refund to biodiesel producers equal to \$0.020 per gallon of pure biodiesel produced in Iowa. A single producer is limited to no more than \$500,000 in production credits each year. Both tax incentives will sunset January 1, 2025.

The sale of biodiesel in Iowa is also promoted by the Renewable Fuel Infrastructure Program. This program assists retail operators of motor fuel dispensing sites or fueling stations in the conversion of their equipment to allow the expanded use of renewable fuels in Iowa using grant incentives to encourage the upgrades. The state invests \$2.5 million annually to fund these grants through the Iowa Department of Agriculture and Land Stewardship.

Interaction of the Iowa Programs:

Collectively, the fuel tax differential, Biodiesel Blended Fuel Tax Credit, Biodiesel Production Sales Tax Refund, and Renewable Fuel Infrastructure Program have had a dramatic impact on the sale of biodiesel in Iowa. The IBB has prepared the attached spreadsheet tracking biodiesel data since 2010 using data from the annual Retailers Fuel Gallons Report. Since 2015, the first year of the fuel tax differential, B-11 and higher gallons grew from 172.8 million to 302 million gallons. **This 75% increase has taken B-11 blends from 27.25% of the clear biodiesel market to 47.41%. This increase in B-11 sales was primarily driven by the fuel tax differential. The changes to the Biodiesel Blended Fuel Tax Credit, which created the new B-11 credit, did not take effect until calendar year 2018.** The data in the chart clearly shows Iowa has found a combination of incentives that work. The number of biodiesel locations has

increased 276% since 2010, and the amount of clear pure biodiesel gallons has increased 708% in the same period of time. The current fuel tax differential is a necessary component of this success.

Federal Biofuel Uncertainty:

Iowa's multiple programs promoting the sale of biodiesel provide necessary stability to the state's agricultural and biodiesel economies. The federal government has not been consistent in their support for biodiesel. Specifically:

- The federal Biodiesel Blender's Tax Credit has not been extended since the 2017 tax year and may not be addressed yet this term.
- The EPA has been reluctant to appropriately increase the annual Renewable Fuel Standard (RFS) levels for biodiesel and ethanol.
- The EPA has continued to grant small refinery exemptions to the RFS.

Biodiesel producers and retailers have made, and will continue to make, investments based upon Iowa's biofuel policy. The fuel tax differential is working and is a necessary component of Iowa's biofuel promotion strategy propping up Iowa's industry, regardless of action or inaction of the federal government.

Economic Impact of Biodiesel on Iowa:

A healthy biofuel industry in Iowa directly benefits farmers, retailers, and biofuel producers.

- Biodiesel supports 4,700 full-time equivalent jobs in Iowa.
- Biodiesel contributes \$457 million in gross domestic profit.
- Biodiesel supports \$278 million in household income.
- Biodiesel contributes \$0.63 per bushel to the price of soybeans.
- Biodiesel reduces the price of meal for livestock by \$21-\$41 per metric ton.
- Biodiesel positively impacts Iowa's agricultural economy by using multiple Iowa grown agriculture feedstocks, primarily soybean oil, but also animal fats and distillers corn oil.
- Without biodiesel – farmers would see an 11% cut in the cash price of soybeans.

Iowa Biodiesel Tracking Sheet 2010 - 2018

Product	2010	2011	2012	2013	2014	2015	2016	2017	2018	Percent Change
Clear Biodiesel Locations	205	204	283	339	326	405	471	507	771	276%
Dyed Biodiesel Locations	102	102	93	125	114	118	143	127	126	24%
Total Biodiesel Retailers	239	242	304	372	368	431	514	538	792	231%
Clear Biodiesel PBG	6,899,962	13,360,561	21,869,422	27,127,682	31,247,535	35,766,383	44,783,313	55,089,298	55,754,472	708%
Dyed Biodiesel PBG	528,711	612,925	1,400,405	1,844,872	2,099,093	1,752,126	1,929,127	2,079,877	2,269,016	329%
Total Biodiesel PBG	7,428,673	13,973,486	23,269,827	28,972,554	33,346,628	37,518,509	46,712,440	57,169,174	58,023,487	681%
Total Clear Diesel	575,052,787	543,794,807	523,035,302	547,456,271	560,573,695	634,137,010	629,954,114	631,149,200	637,067,328	11%
Total Dyed Diesel	165,079,923	185,725,855	148,291,464	159,519,561	164,413,817	193,649,552	211,657,576	197,028,373	188,988,065	14%
Total Diesel	740,132,710	729,520,662	671,326,766	706,975,832	724,987,512	827,786,562	841,611,690	828,177,573	826,055,393	12%
Clear Bio as % of Total Clear	1.20%	2.46%	4.18%	4.96%	5.57%	5.64%	7.11%	8.73%	8.75%	629%
Dyed Bio as % of Total Dyed	0.32%	0.33%	0.94%	1.16%	1.28%	0.90%	0.91%	1.06%	1.20%	275%
Total Bio as % of Total Diesel	1.00%	1.92%	3.47%	4.10%	4.60%	4.53%	5.55%	6.90%	7.02%	600%
Clear Blends B11 and Higher						172,790,794	240,172,247	315,255,171	302,011,475	75%
B11 and higher as % of clear						27.25%	38.13%	49.95%	47.41%	