

September 18, 2019

To: Members of the Fuel Distribution Percentage Formula Review Committee

Re: Fuel Tax Differential

We write to you today committed in making sure Iowa stays the leader in producing renewable fuels and value-added co-products. Currently, Iowa has 43 ethanol refineries capable of producing over 4.5 billion gallons annually, including 34 million gallons of cellulosic ethanol. Further, there are 11 biodiesel facilities in Iowa that produce just under 400 million gallons annually.

In this letter, we respectfully request that the Committee support continuing the biofuel tax differentials through an extension or removal of the current sunset. It is our belief that the fuel tax differentials are vital in keeping Iowa a leader in biofuels policy, but more importantly a leader ensuring consumers have access to higher blends of biofuels that benefit both the environment and their wallets.

Under current Iowa law, the fuel excise tax rate is \$0.305 per gallon while the rate on E10 or higher blends is \$0.29 per gallon. The rates are set every fiscal year based on the market share of E10 or higher blends from the prior calendar year. Since 2015, there has been a similar differential setup for B11 or higher blends which are taxed at \$0.295 per gallon, \$0.03 lower than \$0.325 tax rate for diesel. This differential, like the ethanol version, is also based on market share from the previous calendar year. Both the E10+ and B11+ fuel tax differentials are set to sunset on July 1, 2020.

With the looming sunset this summer, last session many in this group among other stakeholders worked together to develop SF 628 which extended the fuel tax differential's sunset to June 30, 2026. While SF628 kept the biodiesel differential as is, it did make two key changes to the fuel excise tax differential.

First, the ethanol fuel excise tax differential would be moved from E10 and higher blends to E15 and higher blends. When considering the smaller market share of E15+ this would allow the fuel tax differential to expand to \$0.06 while initially saving \$4-10 million dollars annually to the Road Use Tax Fund. Once E15+ market share hits 10%, a sliding scale would assure that as market share increased, the fuel tax differential would decrease ensuring an additional \$1-3 million annually back into the Road Use Tax Fund compared to an extension of current law.

Second, the legislation also specifies that the data to be used by the Department of Revenue to determine the percentage of market share for ethanol and biodiesel shall be the Retailers Fuel Gallons Report in Iowa Code section 452A.33. This data set is considered more comprehensive than the data currently used from fuel terminals.

Given the upcoming sunset and news in June of President Trump approving year-round E15 it is our hope that legislation extending and modernizing the tax differentials would receive wide support among legislators in the upcoming session. In a time of federal uncertainty, more than ever biofuel producers, farmers, and supporting industries need the support of the Iowa Statehouse.

Further, it is important to remember how vital the biofuels industry is to Iowa's economy. A recent report shows that the biofuels industry accounts for more than \$5.0 billion, or about 3%, of Iowa GDP; generates over \$2.5 billion of income for Iowa households; and supports almost 50,000 jobs through the entire Iowa economy.

We look forward to working with the Committee as you begin your work to review the fuel distribution formula in Iowa Code section 452A.3. It is our hope to continue this partnership on the fuel tax differential as it's beneficial to our rural economies and has a positive impact on the wallets of Iowa consumers.

Sincerely,

