



Fuel Distribution Percentage Review Committee

December 6, 2024

Presenters

- Iowa Department of Transportation
 - Stuart Anderson, Transportation Development Division Director
- Iowa Department of Revenue
 - Matt Bishop, Policy Director - Sales & Excise Taxes
 - Scott Fisher, Management Analyst - Alcohol & Tax Compliance Division

Overview

- Purpose/overview of variable tax rate
 - Ethanol
 - Biodiesel
- History of variable tax rate
- Impact of variable tax rate
- Fuel price changes
- E15 Access Standard
- Renewable Diesel
- Retailers Fuel Gallons Annual Report
- Biodiesel Distribution Percentage Targets

Purpose of Ethanol Variable Tax Rate

- State fuel tax rates prior to July 1, 2002
 - Gasoline: 20 cents per gallon (cpg)
 - Ethanol-blended gasoline: 19 cpg
- As more users shifted to ethanol-blended gasoline, there was a corresponding reduction in Road Use Tax Fund (RUTF) revenue.
- In 2002, Legislature established variable tax rate to incentivize greater ethanol usage while preventing further RUTF losses.

Overview of Ethanol Variable Tax Rate

- Initially effective July 1, 2002
- Fuel tax rates adjusted every July 1 based on previous calendar year “ethanol distribution percentage”
- Ethanol distribution percentage: Percentage of all gasoline and ethanol-blended gasoline sales in Iowa that are ethanol-blended

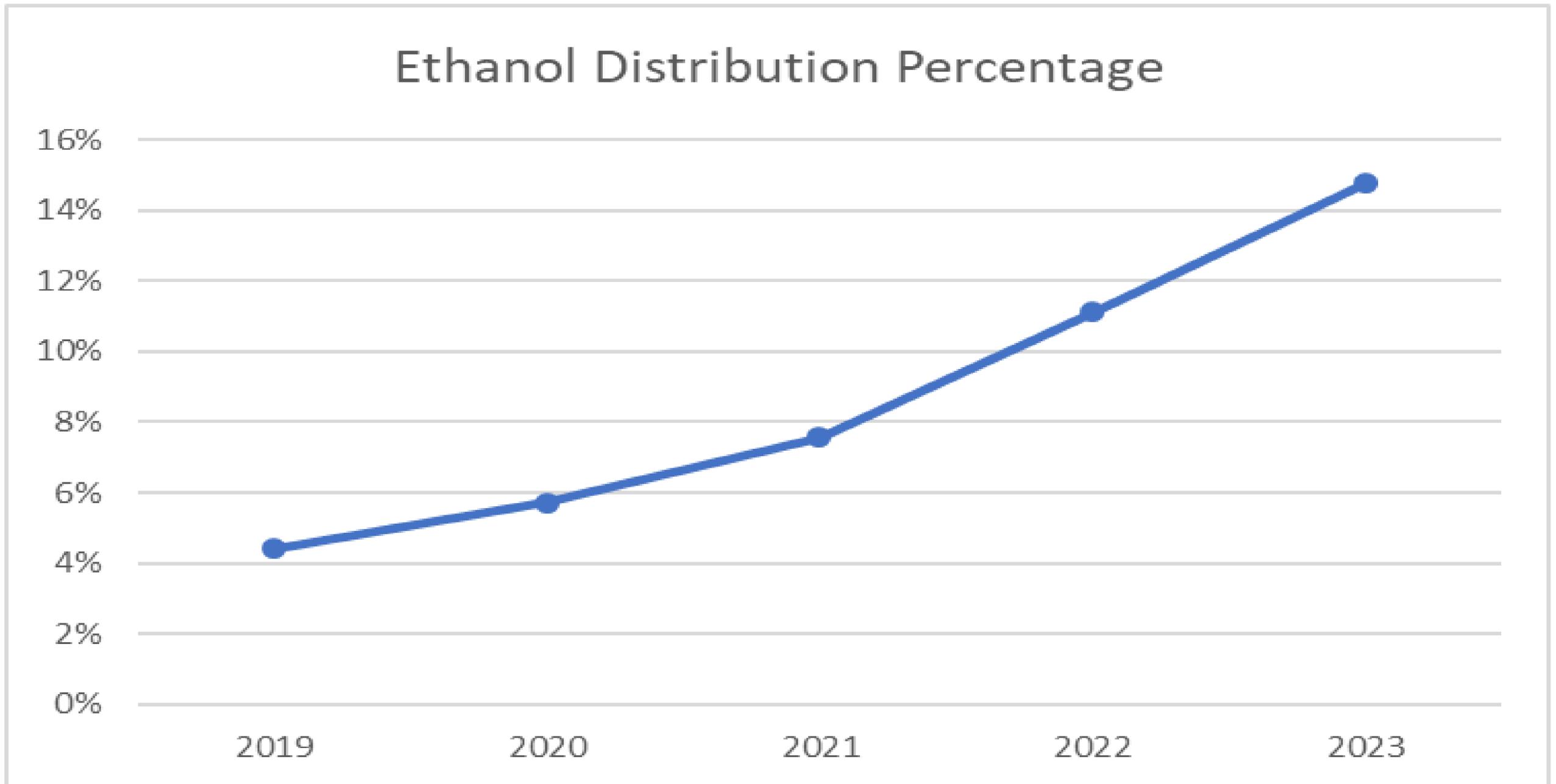
$$\text{Distribution percentage} = \frac{\text{Gallons of E15+ sold}}{\text{Gallons of all gasoline sold}}$$

- Sunsets June 30, 2030 at which point fuel tax rate is 30.0 cpg for all gasoline types

Overview of Ethanol Variable Tax Rate (cont.)

Distribution Percentage	E15+ Tax Rate in cpg	Distribution Percentage	E15+ Tax Rate in cpg
0% to 10%	24.0	22% to 26%	27.5
10% to 12%	24.5	26% to 35%	28.0
12% to 14%	25.0	35% to 45%	28.5
14% to 16%	25.5	45% to 65%	29.0
16% to 18%	26.0	65% to 85%	29.2
18% to 20%	26.5	85% to 95%	29.5
20% to 22%	27.0	95% to 100%	30.0

30 cpg for all other gasoline products



- Measures the gallons of E15+ sold at retail as a percentage of all gasoline products sold at retail
- Prior to 2019, the percentage was based on E10+

Purpose of Biodiesel Variable Tax Rate

- State diesel tax rate prior to July 1, 2015: 32.5 cpg
- As part of the 2015 fuel tax increase legislation, the Legislature established a biodiesel variable tax rate to incentivize the use of biodiesel at blends of 11 percent or greater (B11+) and to reduce the impact on RUTF as usage of B11+ increases.

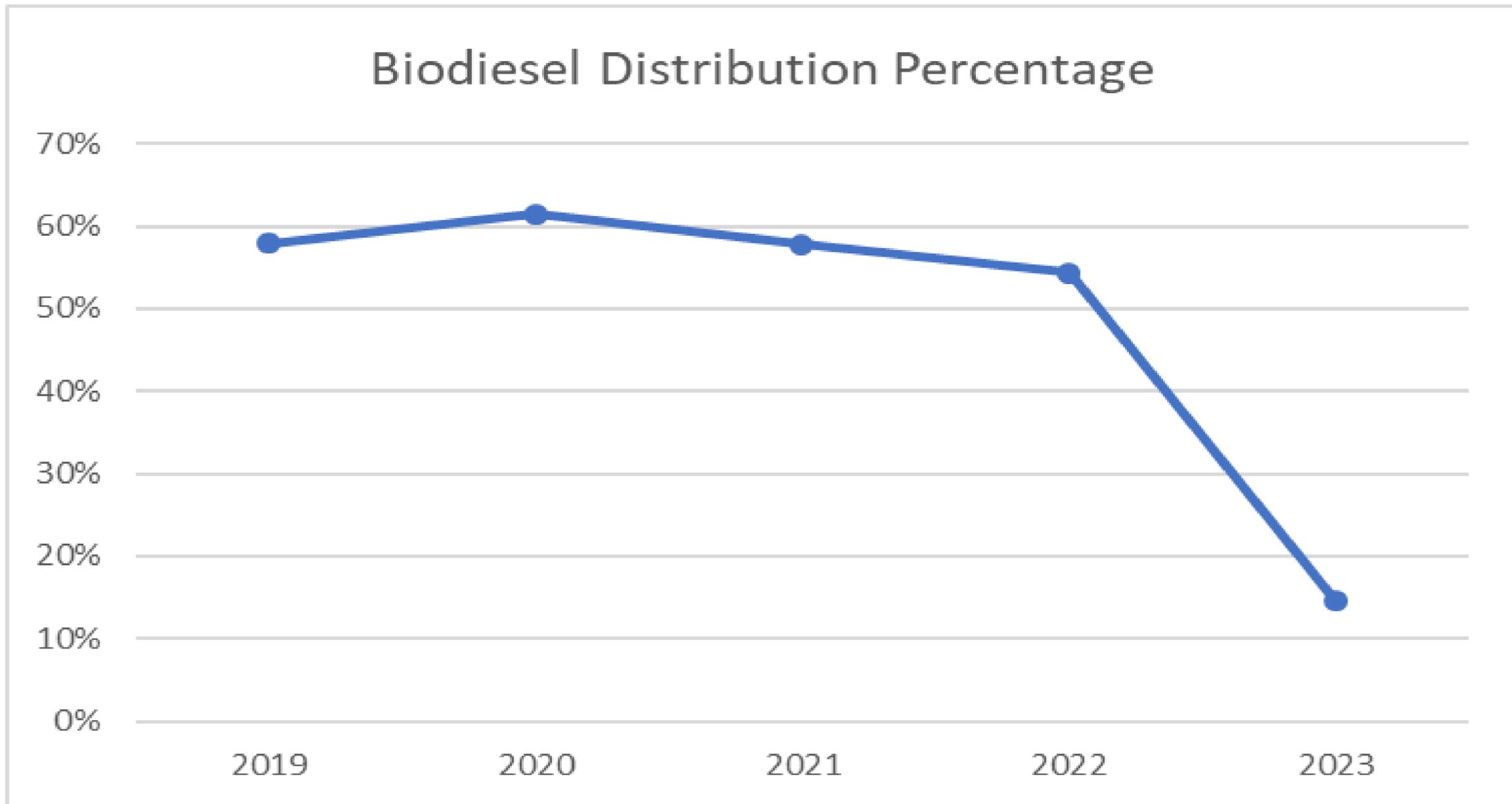
Overview of Biodiesel Variable Tax Rate

- Initially Effective July 1, 2015
- Fuel tax rates adjusted every July 1 based on previous calendar year “biodiesel distribution percentage”
- Effective July 1, 2024, the reduced tax rate applies to biodiesel blends of 20 percent or greater (B20+).
- Biodiesel distribution percentage: Percentage of all diesel and biodiesel sales in Iowa that are biodiesel blends at 20 percent or greater (B20+)
- Sunsets June 30, 2030, at which point fuel tax rate is 32.5 cpg for all diesel

Overview of Biodiesel Variable Tax Rate (cont.)

Distribution Percentage	B20+ Tax Rate in cpg	Distribution Percentage	B20+ Tax Rate in cpg
0% to 50%	29.5	75% to 80%	31.3
50% to 55%	29.8	80% to 85%	31.6
55% to 60%	30.1	85% to 90%	31.9
60% to 65%	30.4	90% to 95%	32.2
65% to 70%	30.7	95% to 100%	32.5
70% to 75%	31.0		

- 32.5cpg for all other diesel products
- Prior to July 1, 2024, the reduced rate and distribution percentages used B11+



- Measures the gallons of B20+ sold at retail as a percentage of all diesel products sold at retail
- Prior to 2023, the percentage was based on B11+

History of Variable Tax Rate

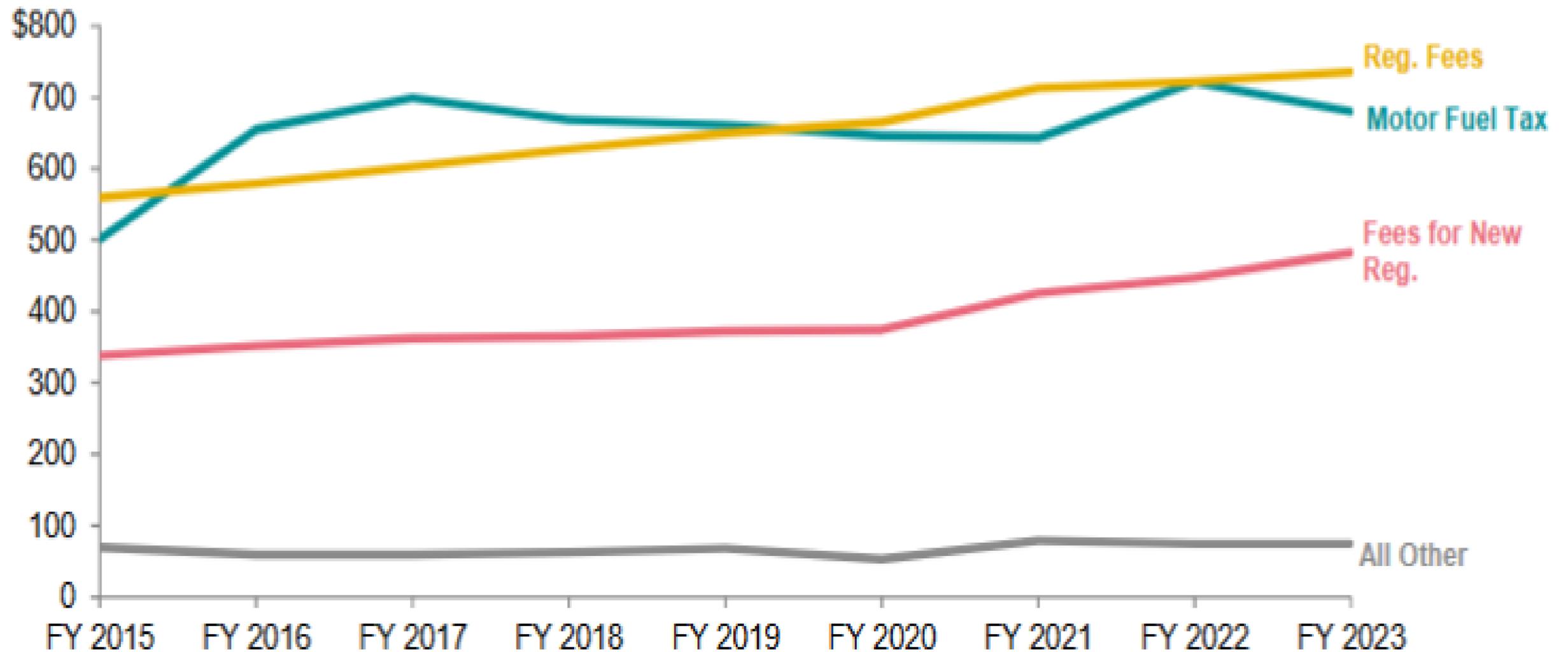
- 2002: Ethanol variable tax rate established with June 30, 2007 sunset
- 2007: Sunset extended to June 30, 2012
- 2012: Sunset extended to June 30, 2013
- 2013: Sunset extended to June 30, 2014
- 2014: Sunset extended to June 30, 2015

History of Variable Tax Rate (cont.)

- 2015: As part of fuel tax increase bill
 - Ethanol variable tax rate sunset extended to June 30, 2020
 - Biodiesel variable tax rate established effective July 1, 2015 with a sunset of June 30, 2020
 - Language requiring this legislative interim committee to report by January 1, 2020 and at least every five years* thereafter
 - (* Originally was every six years)
- 2020: Legislation adjusted the ethanol variable tax rate to be based on E15 and greater blends effective July 1, 2020
- 2022 (HF 2128):
 - The biodiesel distribution percentage and reduced biodiesel tax rate uses B20+ instead of B11+, effective July 1, 2024.
 - Sunset date for both ethanol and biodiesel variable tax rates extended to June 30, 2030.

Impact of Variable Tax Rate

Road Use Tax Fund (RUTF)



- \$680M in fuel tax transferred to the RUTF in 2023

Impact of Variable Tax Rate Gasoline & Ethanol

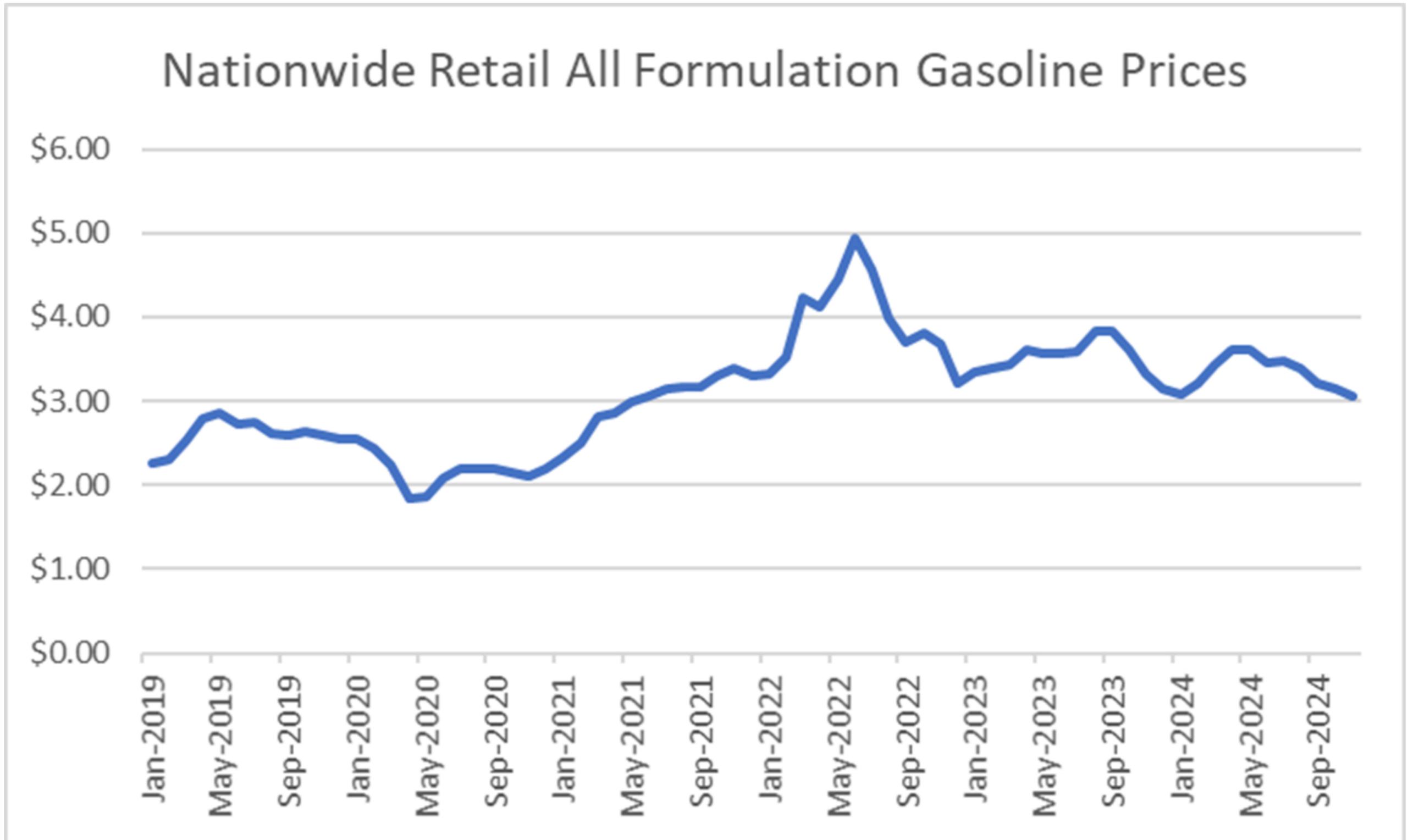
Year	E15+ Gallons Sold	Total Gallons of Gasoline Products Sold	Distribution Percentage
2019	69,045,029	1,564,923,126	4.41%
2020	76,556,946	1,340,579,160	5.71%
2021	107,130,955	1,416,817,071	7.56%
2022	141,935,484	1,276,551,298	11.11%
2023	198,527,534	1,345,087,314	14.76%

- 198,527,534 gallons of E15+ taxed at 25.5cpg results in \$50,624,521.17
- 198,527,534 gallons of E15+ taxed at 30cpg results in \$59,558,260.20, an increase of \$8,933,739.03

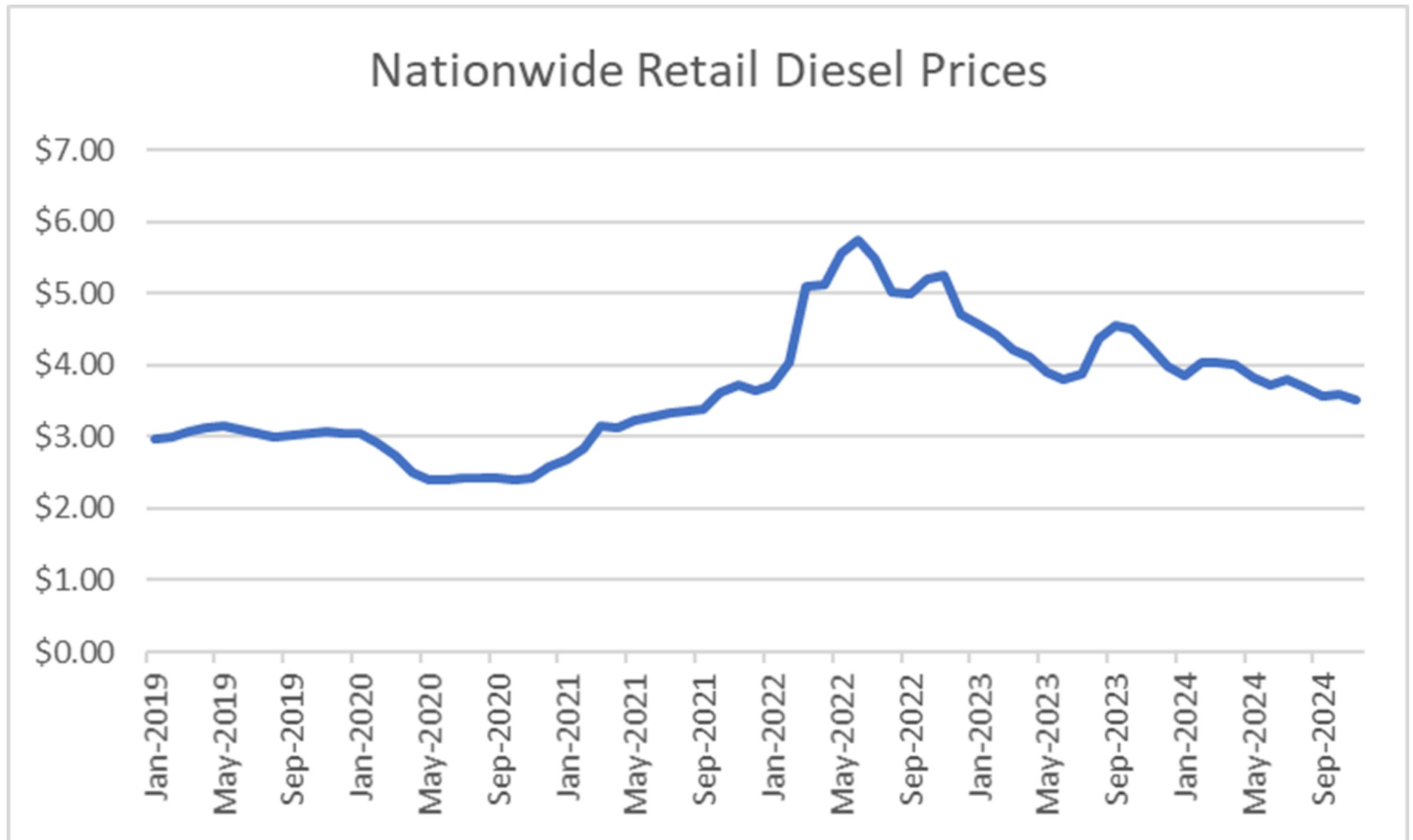
Impact of Variable Tax Rate Diesel & Biodiesel

Year	B11+ Gallons Sold/ *B20+ Gallons Sold in 2023	Total Gallons of Diesel Products Sold	Distribution Percentage
2019	368,682,602	636,865,258	57.89%
2020	377,683,987	614,145,642	61.50%
2021	347,405,457	601,576,222	57.75%
2022	358,897,434	660,593,207	54.33%
*2023	91,031,877	622,838,460	14.61%

- 91,031,877 gallons of B20+ taxed at 29.5 cpg results in \$26,854,403.715
- 91,031,877 gallons of B20+ taxed at 32.5 cpg results in \$29,585,360.025, an increase of \$2,730,956.31



Source: U.S. Energy Information Administration



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E15 Access Standard

- 2022 HF 2128: Requires most retailers to offer E15 by January 1, 2026
- 2024 HF 2687: Amends the transition period and requires new infrastructure to be compatible with E85 by January 1, 2030
- State and federal cost-share assistance is available to help retailers upgrade their infrastructure
- The EPA enacted a rule to allow year-round sale of E15 in Iowa and surrounding states without waiver, effective April 25, 2025
- The incoming Trump administration may change federal fuel and biofuel policy

Renewable Diesel

- Renewable diesel meets the ASTM standard for petroleum diesel but does not have the same fuel tax rate as biodiesel even though it may be made from the same feedstocks plus fats, oils, or greases
- If someone delivered renewable diesel in Iowa today, it would be reported and taxed as regular petroleum diesel at the higher fuel tax rate rather than the rate for biodiesel
- There is not currently a way to identify and report it differently from petroleum diesel
- Unknown whether it is sold in Iowa yet

Retailers Fuel Gallons Annual Report

- 2020 SF 2403: Distribution percentages are based on gallons reported for the retailers annual report, beginning with CY2019
- Previously, distribution percentages were based on monthly reports. The annual report is seen as more accurate
- Retailers must file their report in January
- 2022 HF 2128: Retailers are subject to \$100 penalty for a late or non-filed report
- In 2023, IDR received a report from 1,898 retail locations, a response rate of 84%. This is an increase from the 71% response rate in 2022
- IDR is reaching out to non-filing retailers to remind them to file or update their license status for the report due January 2025

Biodiesel Distribution Percentage Targets

- 2022 HF 2128: Reduced biodiesel tax rate and distribution percentage uses B20+, effective July 1, 2024. Previously they used B11+
- The bill did not change the targets for the biodiesel distribution percentage
- The lowest biodiesel distribution percentage target is 0% to 50%
- For CY2023, the biodiesel distribution percentage was 14.6%
- Monthly reports in 2024 have shown a small increase in the percent of B20+ sold, but still well below 50%
- As currently calculated, the biodiesel distribution percentage will likely remain below 50% for the foreseeable future

Thank you!

Questions?