

MAR 7 2006  
WAYS AND MEANS

HOUSE FILE 2685  
BY COMMITTEE ON AGRICULTURE

(SUCCESSOR TO HSB 699)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to state tax benefits for use of soy-based  
2 transformer fluid by electric utilities and including  
3 effective and applicability date provisions.

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

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HF 2685

TLSB 6456HV 81

mg/gg/14

1 Section 1. NEW SECTION. 422.11M SOY-BASED TRANSFORMER  
2 FLUID TAX CREDIT.

3 The taxes imposed under this division, less the credits  
4 allowed under sections 422.12 and 422.12B, shall be reduced by  
5 a soy-based transformer fluid tax credit allowed under chapter  
6 476D.

7 This section is repealed December 31, 2008.

8 Sec. 2. Section 422.16, Code Supplement 2005, is amended  
9 by adding the following new subsection:

10 NEW SUBSECTION. 15. An employer or withholding agent in  
11 possession of a soy-based transformer fluid tax credit  
12 certificate issued pursuant to chapter 476D who is required to  
13 deduct and withhold tax under subsections 1 and 12 may receive  
14 a tax credit from the amount of the tax deducted and withheld  
15 which is payable to the department equal to the amount of the  
16 soy-based transformer fluid tax credit certificate. To obtain  
17 the tax credit, the person shall attach to the return required  
18 under subsection 2, the soy-based transformer fluid tax credit  
19 certificate issued to the person pursuant to chapter 476D and  
20 provide any other information the director may require. The  
21 amount of the tax deducted and withheld which is not remitted  
22 to the department under this subsection may be used for any  
23 purpose of the employer or withholding agent.

24 This subsection is repealed December 31, 2008.

25 Sec. 3. Section 422.33, Code Supplement 2005, is amended  
26 by adding the following new subsection:

27 NEW SUBSECTION. 20. The taxes imposed under this division  
28 shall be reduced by a soy-based transformer fluid tax credit  
29 allowed under chapter 476D.

30 This subsection is repealed December 31, 2008.

31 Sec. 4. Section 423.4, Code Supplement 2005, is amended by  
32 adding the following new subsection:

33 NEW SUBSECTION. 6. A person in possession of a soy-based  
34 transformer fluid tax credit certificate issued pursuant to  
35 chapter 476D may apply to the director for refund of the

1 amount of sales or use tax imposed and paid upon purchases  
2 made by the applicant.

3 a. The refunds may be obtained only in the following  
4 manner and under the following conditions:

5 (1) On forms furnished by the department and filed by  
6 January 31 after the end of the calendar year in which the tax  
7 credit certificate is to be applied, the applicant shall  
8 report to the department the total amount of sales and use tax  
9 paid during the reporting period on purchases made by the  
10 applicant.

11 (2) The applicant shall separately list the amounts of  
12 sales and use tax paid during the reporting period.

13 (3) If required by the department, the applicant shall  
14 prove that the person making the sale has included the amount  
15 thereof in the computation of the sales price of such person  
16 and that such person has paid the tax levied by this  
17 subchapter or subchapter III, based upon such computation of  
18 the sales price.

19 (4) The applicant shall provide the tax credit  
20 certificates issued pursuant to chapter 476D to the department  
21 with the forms required by this paragraph "a".

22 b. If satisfied that the foregoing conditions and  
23 requirements have been complied with, the director shall  
24 refund the amount claimed by the applicant for an amount not  
25 greater than the amount of tax credits issued in tax credit  
26 certificates pursuant to chapter 476D.

27 c. This subsection is repealed December 31, 2008.

28 Sec. 5. NEW SECTION. 476D.1 DEFINITIONS.

29 As used in this chapter, unless the context otherwise  
30 requires:

31 1. "Department" means the department of revenue.

32 2. "Electric utility" means a public utility furnishing  
33 electricity as defined in section 476.1, a city utility as  
34 defined in section 390.1, and an electric cooperative as  
35 defined in section 390.1.

1 3. "Soy-based transformer fluid" means dielectric fluid  
2 that contains at least ninety-eight percent soy-based  
3 products.

4 Sec. 6. NEW SECTION. 476D.2 SOY-BASED TRANSFORMER FLUID  
5 TAX CREDIT -- LIMIT.

6 1. An electric utility is eligible to receive a soy-based  
7 transformer fluid tax credit which is equal to the costs  
8 incurred by the utility during the tax year for the purchase  
9 and replacement costs relating to the transition from using  
10 nonsoy-based transformer fluid to using soy-based transformer  
11 fluid. The costs eligible for the credit are limited to those  
12 costs meeting all of the following requirements:

13 a. The costs were incurred after June 30, 2006, and before  
14 January 1, 2008.

15 b. The costs were incurred in the first eighteen months of  
16 the transition from using nonsoy-based transformer fluid to  
17 using soy-based transformer fluid.

18 c. The credit for the purchase and replacement of soy-  
19 based transformer fluid used in the transition is limited to  
20 two dollars per gallon. The total number of gallons used in  
21 the transition shall not exceed twenty thousand gallons per  
22 electric utility.

23 If the electric utility elects to take the soy-based  
24 transformer fluid tax credit, the electric utility shall not  
25 deduct for Iowa tax purposes any amount of the costs incurred  
26 in the transition to using soy-based transformer fluid which  
27 is deductible for federal tax purposes.

28 2. Any credit used under chapter 422, division II or III,  
29 which is in excess of the tax liability shall be refunded with  
30 interest computed under section 422.25. In lieu of claiming a  
31 refund, a taxpayer may elect to have the overpayment shown on  
32 the taxpayer's final, completed return credited to the tax  
33 liability for the following tax year.

34 3. An individual may claim the tax credit under chapter  
35 422, division II, allowed a partnership, limited liability

1 company, S corporation, estate, or trust electing to have the  
2 income taxed directly to the individual. The amount claimed  
3 by the individual shall be based upon the pro rata share of  
4 the individual's earnings of the partnership, limited  
5 liability company, S corporation, estate, or trust.

6 4. The total amount of soy-based transformer fluid  
7 eligible for a tax credit shall not exceed sixty thousand  
8 gallons.

9 Sec. 7. NEW SECTION. 476D.3 TAX CREDIT CERTIFICATE  
10 PROCEDURE.

11 1. An electric utility may apply to the department for the  
12 soy-based transformer fluid tax credit by submitting to the  
13 department all of the following:

14 a. A completed application in a form prescribed by the  
15 department.

16 b. A copy of a signed purchase agreement or other  
17 agreement to purchase soy-based transformer fluid.

18 c. Any other information the department deems necessary.

19 2. An electric utility may seek assurance of the  
20 availability of tax credits by getting approval from the  
21 department for the tax credits by submitting an estimate of  
22 the soy-based transformer fluid to be used during the  
23 transition period prior to the utility entering into any  
24 agreement to purchase the soy-based transformer fluid and  
25 prior to the start of its transition period. If tax credits  
26 are available, the department shall reserve the tax credits  
27 for the electric utility. Prior approval under this  
28 subsection shall be granted based upon the earliest date of  
29 application. Prior approval under this subsection does not  
30 eliminate the requirement for the electric utility to file the  
31 application under subsection 1.

32 3. The department shall calculate the amount of the tax  
33 credit for which the applicant is eligible and shall issue, or  
34 in the case of prior approval under subsection 2, shall  
35 reserve the tax credit certificate for that amount or notify

1 the applicant in writing of its refusal to do so. An  
2 applicant whose application is denied may file an appeal with  
3 the department within sixty days from the date of the denial  
4 pursuant to the provisions of chapter 17A. However, the  
5 denial of an application solely because of the lack of the  
6 availability of tax credits is not appealable.

7 4. Each tax credit certificate shall contain the person's  
8 name, address, and tax identification number, the amount of  
9 tax credits, the first taxable year the certificate may be  
10 used, the type of tax to which the tax credits shall be  
11 applied, and any other information required by the department.  
12 The tax credit certificate shall only list one type of tax to  
13 which the amount of the tax credit may be applied. Once  
14 issued by the department, the tax credit certificate shall not  
15 be terminated or rescinded.

16 5. Once a tax credit certificate is issued pursuant to  
17 this section, the tax credit may only be claimed against the  
18 type of tax reflected on the certificate.

19 Sec. 8. NEW SECTION. 476D.4 RULES.

20 The department may adopt rules pursuant to chapter 17A for  
21 the administration and enforcement of this chapter.

22 Sec. 9. NEW SECTION. 476D.5 APPLICABILITY -- REPEAL.

23 1. This chapter applies to tax years ending after June 30,  
24 2006, and beginning before January 1, 2008.

25 2. This chapter is repealed December 31, 2008.

26 Sec. 10. EFFECTIVE DATE. This Act, being deemed of  
27 immediate importance, takes effect upon enactment.

28 EXPLANATION

29 This bill provides a soy-based transformer fluid tax credit  
30 under the individual and corporate income, sales and use, and  
31 withholding taxes. Soy-based transformer fluid is  
32 nonconductible fluid that contains at least 98 percent soy-  
33 based products. The tax credit equals the costs incurred for  
34 the purchase and replacement costs for electric utilities  
35 related to the transition from using nonsoy-based transformer

1 fluid to using soy-based transformer fluid. The costs must  
2 meet three other requirements: They were incurred after June  
3 30, 2006, and before January 1, 2008, they were incurred in  
4 the first 18 months of the transition to using soy-based  
5 transformer fluid, and the credit of the soy-based transformer  
6 fluid used in the transition is limited to \$2 per gallon, up  
7 to 20,000 gallons per electric utility. The total amount of  
8 soy-based transformer fluid eligible for a tax credit is not  
9 to exceed 60,000 gallons. Any excess credit is refundable.  
10 In order for an electric utility to know if the tax credits  
11 are available, it may seek prior approval of the tax credit by  
12 applying prior to purchase of the soy-based transformer fluid  
13 and the transition period. If prior approval is granted, the  
14 estimated amount of tax credits would be reserved for the  
15 electric utility. The credit applies to tax years ending  
16 after June 30, 2006, and beginning before January 1, 2008.  
17 The credit is repealed December 31, 2008.

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

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HF 2685 – Soy-Based Transformer Fluid Tax Credit (LSB 6456 HV)  
Analyst: Jeff Robinson (Phone: (515) 281-4614) ([jeff.robinson@legis.state.ia.us](mailto:jeff.robinson@legis.state.ia.us))  
Fiscal Note Version - New

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**Description**

House File 2685 creates an income tax credit for the purchase and replacement cost related to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. Soy-based transformer fluid is defined as a nonconductive fluid containing at least 98% soy-based products. The credit can be applied to corporate income, sales, and replacement taxes.

The credit is allowed for tax years ending after June 30, 2006, and beginning before January 1, 2008. The credit is \$2.00 per gallon for a maximum of 60,000 gallons.

**Fiscal Impact**

The tax credit established in HF 2685 will reduce the net sales tax liability of electric utilities by a maximum of \$120,000. The credits will be redeemed or the tax refunded during FY 2007.

**Source**

Legislative Services Agency analysis

/s/ Holly M. Lyons

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March 8, 2006

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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.

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Drake, Chair  
Mertz  
Lalk

HSB 699  
Agriculture

HOUSE FILE SE 02685  
BY (PROPOSED COMMITTEE ON  
AGRICULTURE BILL BY  
CHAIRPERSON DRAKE)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to state tax benefits for use of soy-based  
2 transformer fluid by electric utilities and including  
3 applicability date provisions.

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

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1 Section 1. NEW SECTION. 422.11M SOY-BASED TRANSFORMER  
2 FLUID TAX CREDIT.

3 The taxes imposed under this division, less the credits  
4 allowed under sections 422.12 and 422.12B, shall be reduced by  
5 a soy-based transformer fluid tax credit allowed under chapter  
6 476D.

7 This section is repealed December 31, 2008.

8 Sec. 2. Section 422.33, Code Supplement 2005, is amended  
9 by adding the following new subsection:

10 NEW SUBSECTION. 20. The taxes imposed under this division  
11 shall be reduced by a soy-based transformer fluid tax credit  
12 allowed under chapter 476D.

13 This subsection is repealed December 31, 2008.

14 Sec. 3. Section 423.4, Code Supplement 2005, is amended by  
15 adding the following new subsection:

16 NEW SUBSECTION. 6. A person in possession of a soy-based  
17 transformer fluid tax credit certificate issued pursuant to  
18 chapter 476D may apply to the director for refund of the  
19 amount of sales or use tax imposed and paid upon purchases  
20 made by the applicant.

21 a. The refunds may be obtained only in the following  
22 manner and under the following conditions:

23 (1) On forms furnished by the department and filed by  
24 January 31 after the end of the calendar year in which the tax  
25 credit certificate is to be applied, the applicant shall  
26 report to the department the total amount of sales and use tax  
27 paid during the reporting period on purchases made by the  
28 applicant.

29 (2) The applicant shall separately list the amounts of  
30 sales and use tax paid during the reporting period.

31 (3) If required by the department, the applicant shall  
32 prove that the person making the sale has included the amount  
33 thereof in the computation of the sales price of such person  
34 and that such person has paid the tax levied by this  
35 subchapter or subchapter III, based upon such computation of

1 the sales price.

2 (4) The applicant shall provide the tax credit  
3 certificates issued pursuant to chapter 476D to the department  
4 with the forms required by this paragraph "a".

5 b. If satisfied that the foregoing conditions and  
6 requirements have been complied with, the director shall  
7 refund the amount claimed by the applicant for an amount not  
8 greater than the amount of tax credits issued in tax credit  
9 certificates pursuant to chapter 476D.

10 c. This subsection is repealed December 31, 2008.

11 Sec. 4. NEW SECTION. 437A.17C REIMBURSEMENT FOR SOY-  
12 BASED TRANSFORMER FLUID.

13 A person in possession of a soy-based transformer fluid tax  
14 credit certificate issued pursuant to chapter 476D may apply  
15 to the director for a reimbursement of the amount of taxes  
16 imposed and paid by the person pursuant to this chapter in an  
17 amount not more than the person received in soy-based  
18 transformer fluid tax credit certificates pursuant to chapter  
19 476D. To obtain the reimbursement, the person shall attach to  
20 the return required under section 437A.8 the soy-based  
21 transformer fluid tax credit certificates issued to the person  
22 pursuant to chapter 476D and provide any other information the  
23 director may require. The director shall direct a warrant to  
24 be issued to the person for an amount equal to the tax imposed  
25 and paid by the person pursuant to this chapter but for not  
26 more than the amount of the soy-based transformer fluid tax  
27 credit certificates attached to the return.

28 This section is repealed December 31, 2008.

29 Sec. 5. NEW SECTION. 476D.1 DEFINITIONS.

30 As used in this chapter, unless the context otherwise  
31 requires:

32 1. "Board" means the utilities board within the utilities  
33 division of the department of commerce.

34 2. "Department" means the department of revenue.

35 3. "Electric utility" means a public utility furnishing

1 electricity as defined in section 476.1, a city utility as  
2 defined in section 390.1, and an electric cooperative as  
3 defined in section 390.1.

4 4. "Soy-based transformer fluid" means dielectric fluid  
5 that contains at least ninety-eight percent soy-based  
6 products.

7 Sec. 6. NEW SECTION. 476D.2 SOY-BASED TRANSFORMER FLUID  
8 TAX CREDIT -- LIMIT.

9 1. An electric utility is eligible to receive a soy-based  
10 transformer fluid tax credit which is equal to the costs  
11 incurred by the utility during the tax year for the purchase  
12 and replacement costs relating to the transition from using  
13 nonsoy-based transformer fluid to using soy-based transformer  
14 fluid. The costs eligible for the credit are limited to those  
15 costs meeting all of the following requirements:

16 a. The costs were incurred after June 30, 2006, and before  
17 January 1, 2008.

18 b. The costs were incurred in the first eighteen months of  
19 the transition from using nonsoy-based transformer fluid to  
20 using soy-based transformer fluid.

21 c. The credit for the purchase and replacement of soy-  
22 based transformer fluid used in the transition is limited to  
23 two dollars per gallon. The total number of gallons used in  
24 the transition shall not exceed twenty thousand gallons per  
25 electric utility.

26 If the electric utility elects to take the soy-based  
27 transformer fluid tax credit, the electric utility shall not  
28 deduct for Iowa tax purposes any amount of the costs incurred  
29 in the transition to using soy-based transformer fluid which  
30 is deductible for federal tax purposes.

31 2. Any credit used under chapter 422, division II or III,  
32 which is in excess of the tax liability shall be refunded with  
33 interest computed under section 422.25. In lieu of claiming a  
34 refund, a taxpayer may elect to have the overpayment shown on  
35 the taxpayer's final, completed return credited to the tax

1 liability for the following tax year.

2 3. An individual may claim the tax credit under chapter  
3 422, division II, allowed a partnership, limited liability  
4 company, S corporation, estate, or trust electing to have the  
5 income taxed directly to the individual. The amount claimed  
6 by the individual shall be based upon the pro rata share of  
7 the individual's earnings of the partnership, limited  
8 liability company, S corporation, estate, or trust.

9 4. The total amount of soy-based transformer fluid  
10 eligible for a tax credit shall not exceed sixty thousand  
11 gallons.

12 Sec. 7. NEW SECTION. 476D.3 TAX CREDIT CERTIFICATE  
13 PROCEDURE.

14 1. An electric utility may apply to the board for the soy-  
15 based transformer fluid tax credit by submitting to the board  
16 all of the following:

17 a. A completed application in a form prescribed by the  
18 board.

19 b. A copy of the determination granting approval of the  
20 electric utility as an eligible electric utility by the board.

21 c. A copy of a signed purchase agreement or other  
22 agreement to purchase soy-based transformer fluid.

23 d. Any other information the board deems necessary.

24 2. The board shall notify the department of the amount of  
25 soy-based transformer fluid purchased by an eligible electric  
26 utility. The department shall calculate the amount of the tax  
27 credit for which the applicant is eligible and shall issue the  
28 tax credit certificate for that amount or notify the applicant  
29 in writing of its refusal to do so. An applicant whose  
30 application is denied may file an appeal with the department  
31 within sixty days from the date of the denial pursuant to the  
32 provisions of chapter 17A.

33 3. Each tax credit certificate shall contain the person's  
34 name, address, and tax identification number, the amount of  
35 tax credits, the first taxable year the certificate may be

1 used, the type of tax to which the tax credits shall be  
2 applied, and any other information required by the department.  
3 The tax credit certificate shall only list one type of tax to  
4 which the amount of the tax credit may be applied. Once  
5 issued by the department, the tax credit certificate shall not  
6 be terminated or rescinded.

7 4. Once a tax credit certificate is issued pursuant to  
8 this section, the tax credit may only be claimed against the  
9 type of tax reflected on the certificate.

10 Sec. 8. NEW SECTION. 476D.4 RULES.

11 The department and the board may adopt rules pursuant to  
12 chapter 17A for the administration and enforcement of this  
13 chapter.

14 Sec. 9. NEW SECTION. 476D.5 APPLICABILITY -- REPEAL.

15 1. This chapter applies to tax years ending after June 30,  
16 2006, and beginning before January 1, 2008.

17 2. This chapter is repealed December 31, 2008.

18 EXPLANATION

19 This bill provides a soy-based transformer fluid tax credit  
20 under the individual and corporate income, sales and use, and  
21 replacement taxes. Soy-based transformer fluid is  
22 nonconductible fluid that contains at least 98 percent soy-  
23 based products. The tax credit equals the costs incurred for  
24 the purchase and replacement costs for electric utilities  
25 related to the transition from using nonsoy-based transformer  
26 fluid to using soy-based transformer fluid. The costs must  
27 meet three other requirements: They were incurred after June  
28 30, 2006, and before January 1, 2008, they were incurred in  
29 the first 18 months of the transition to using soy-based  
30 transformer fluid, and the credit of the soy-based transformer  
31 fluid used in the transition is limited to \$2 per gallon, up  
32 to 20,000 gallons per electric utility. The total amount of  
33 soy-based transformer fluid eligible for a tax credit is not  
34 to exceed 60,000 gallons. Any excess credit is refundable.  
35 The credit applies to tax years ending after June 30, 2006,

1 and beginning before January 1, 2008. The credit is repealed  
2 December 31, 2008.

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