



ISSUE BRIEF

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BIODIESEL & MOTOR FUEL TAX POLICY

Critical Issue

Iowa's biodiesel industry has been a national leader in the effort to reduce our country's dependence on foreign oil and create a cleaner, healthier environment. In recent months, however, fluctuating commodity prices has created major financial stress for the industry. As a result, Iowa biodiesel plants are operating drastically below capacity. While nationally the long-term outlook for biodiesel is strong, steps must be taken now if Iowa is to maintain its leadership position.

Surrounding states have become increasingly more aggressive in their promotion of biodiesel. Minnesota, for example, is standing firmly behind biodiesel because they understand the economic and environmental benefits. Beginning in May, every gallon of diesel sold in Minnesota will contain at least 5 percent biodiesel. That number is set to go up to 20 percent by 2015. Four other states have similar policies that replace a portion of our dependence on foreign oil with domestic biodiesel in every gallon. Illinois exempts biodiesel from sales tax, which means a savings of 12½ cents on a \$2 gallon of diesel. Iowa is a leading producer of biodiesel, and our economy would benefit significantly from similar policies.

Initiative

Recent legislative proposals call for an \$.08 per gallon across the board increase in the motor fuel tax (\$.04 in 2009 and an additional \$.04 in 2010). This legislative proposal creates an opportunity for Iowa to reassert its leadership in renewable fuels while supporting job creation and economic opportunity in rural Iowa by exempting biodiesel blended fuels of B10 and above from any increase.

Fiscal Impact

Year	Total Diesel	Biodiesel %	%>B10	Excise Tax Increase	Tot Revenue	Biodiesel Exemption	Less B10+ Gallons	Net Revenue
2009	342,121,388	0.249	0.35	\$ 0.08	\$ 27,369,711.00	\$ 0.04	\$ (1,192,635.08)	\$ 26,177,075.92
2010	696,559,145	0.262	0.45	\$ 0.08	\$ 55,724,731.60	\$ 0.08	\$ (6,569,945.78)	\$ 49,154,785.82
2011	709,097,210	0.283	0.50	\$ 0.08	\$ 56,727,776.80	\$ 0.08	\$ (8,026,980.34)	\$ 48,700,796.46
2012	721,860,960	0.306	0.55	\$ 0.08	\$ 57,748,876.78	\$ 0.08	\$ (9,709,049.90)	\$ 48,039,826.89

Results

Exempting biodiesel blended fuels from any motor fuel tax increase would have an immediate and dramatic impact on the availability and usage of biodiesel in this state. The benefits to Iowa's economy and environment would be substantial. It is estimated that, in 2008 alone, biodiesel added \$655 million to the state's gross domestic product and supported more than 3,700 jobs. The exemption would also benefit the environment as recent studies confirm that biodiesel reduces carbon emissions by as much as 80 percent over conventional diesel.