



Iowa Department of
REVENUE

**Iowa's Fuel Tax Credit
Tax Credits Program Evaluation Study**

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Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the second evaluation study completed for this administrative tax credit.

This study and other evaluations of Iowa tax credits can be found on the [Tax Credits Tracking and Analysis Program web page](#) on the Iowa Department of Revenue website.

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I. Introduction

The Iowa Fuel Tax Credit went into effect for tax years beginning on or after January 1, 1975. A taxpayer is eligible for the Iowa Fuel Tax Credit if they do not have a motor fuel refund permit and paid Iowa fuel tax related to purchases of fuel for a nontaxable use. The tax credit is refundable and cannot be transferred to another taxpayer. The tax credit can be claimed against corporation income and individual income taxes.

Section II further describes Iowa's Fuel Tax Credit. Section III of this study provides information about how neighboring states handle overpaid fuel tax. Section IV looks at the statistics related to Iowa fuel tax refunds and Iowa Fuel Tax Credits claimed. Section V concludes this study.

II. Iowa Fuel Tax Credit

The Iowa Fuel Tax Credit is an administrative tax credit. Taxpayers claim the tax credit equal to the amount of Iowa excise tax that was paid on fuel used in a way that is not subject to the excise tax. In Iowa, the excise tax on fuel is imposed on each gallon of fuel used for the privilege of operating motor vehicles in this state.

The excise tax is paid to the State at the terminal level by the supplier of the fuel. Taxed fuel is then delivered to retailers who include the excise tax in the price charged to the customer. If that taxpayer then uses the fuel for any nontaxable purpose, the State is obligated to return that excise tax to the taxpayer. Iowa Code Section 452A.17, lists nontaxable uses of fuel including fuel used in unlicensed vehicles, stationary engines, implements used in agricultural production, and machinery and equipment used for non-highway purposes.

For Iowans using diesel fuel for nontaxable purposes, they have the option to purchase dyed diesel fuel that is subject to neither the federal nor the State fuel excise tax. Alternatively, since 1975, taxpayers have had the option of claiming the Fuel Tax Credit equal to the amount of tax paid on undyed diesel gallons and gasoline gallons of nontaxable fuel used during the tax year. In order to claim the tax credit the taxpayer must, in most cases, not have a motor fuel refund permit that allows the taxpayer to file for refunds of excise fuel tax with the Department of Revenue throughout the year.¹

The Iowa Fuel Tax Credit is computed on the IA 4136 which must be filed with the taxpayer's return along with the federal Form 4136, used to claim the federal Fuel Tax Credit for federal excise taxes paid on the same gallons. In Iowa, fuel is not subject to the sales tax unless that fuel is not subject to the excise tax. Therefore, the amount of the

¹ The Fuel Tax Credit is not available for casualty losses, transport diversions, pumping credits, off-loading procedures, blending errors, idle time, power takeoffs, reefer units, export by distributors, or tax overpaid on blended fuel. A refund can be claimed for those reasons alongside the Fuel Tax Credit.

Iowa Fuel Tax Credit is equal to the amount of excise fuel tax paid less any Iowa sales tax that is due on the fuel. However, there are cases when the nontaxable uses of the fuel are also activities that are exempt from the sales tax; for example, agricultural production.

The Iowa Fuel Tax Credit is refundable, which means when claims exceed the tax liability of the taxpayer, the taxpayer will receive a refund. The tax credit can be claimed against individual income and corporation income taxes. Unlike many other tax credits which are claimed on the IA 148 Tax Credit Schedule, the Fuel Tax Credit is claimed directly on the IA 1040 or IA 1120. Also, unlike other income tax credits, Fuel Tax Credit claims have no impact on the General Fund because all claims paid are reimbursed by the Road Use Tax Fund, where the original excise taxes are deposited.

III. Fuel Tax Refunds and Credits in Neighboring States

Among the states that neighbor Iowa, all states have a fuel tax. No other neighboring state offers a tax credit to return overpaid fuel tax to taxpayers. However, every state with a fuel tax does have a system for taxpayers to file for a refund with the exception of South Dakota which repealed its fuel tax refund in 2011.

IV. Analysis of Iowa Fuel Tax Refunds and Fuel Tax Credit Claims

In order to claim an Iowa fuel tax refund, a taxpayer must have first received a motor fuel tax refund permit from the Department of Revenue. Most fuel tax refund claims are filed by telephone. On average, 596 fuel tax refunds were issued each year from 2012 through 2019 and averaged \$0.5 million per year (see Table 1).² Refunds were paid to taxpayers who used the fuel for agricultural or off-road purposes. Refunds can be claimed once the amount exceeds \$60 and must be requested within three years of purchase.

Alternatively, Fuel Tax Credit claims are filed annually on individual income or corporation income tax returns for fuel purchased during the tax year (see Table 2). The majority of Fuel Tax Credit claims are made by individual income taxpayers. Over the years 2006-2019, 23,000 claims are made each year on average, although the number of claims has been dropping every year. The number of Fuel Tax Credit claims against individual income tax exceeded 30,000 in tax year 2006 but dropped to just over 16,000 in 2019. Fuel Tax Credit claims made against corporation income tax have also steadily decreased, with 1,820 claims in 2006 but only 482 in tax year 2019. The average number of claims against corporation income tax is 1,252 per year. The average claim against

² Fuel tax refunds are paid for many other purposes which are not considered here because taxpayers cannot claim the Fuel Tax Credit for those same purposes. Therefore, these numbers are just a fraction of the refunds reported in the Department's Monthly Fuel Tax Report.

individual income tax was \$137 in 2006-2019 while the average claim against corporation income tax was \$457.

While counts of tax credit claims have fallen over the years, the average individual and corporation claim amounts have been fairly steady over the 2006 through 2014 period. This reflects in part that the excise tax rates have remained steady over this period with gasoline around 20 cents per gallon and diesel fuel at 22.5 cents per gallon. However, effective March 2015, both gasoline and diesel excise tax rates were increased 10 cents per gallon. Average Fuel Tax Credit claims by individual income taxpayers for the period 2015-2019 were 54 percent higher than during period for 2006-2014. Among corporation income taxpayers, the average claim increased 66 percent from the prior to the latter period. The averages for these periods are shown in Table 2.

An important piece of information that can be gathered for tax years 2012 and after from electronically filed individual and corporation income tax returns, is the purpose for the Fuel Tax Credit claim. The purpose of the claim is provided by the taxpayer on the IA 4136. The primary reason for Fuel Tax Credit claims being filed is farming (see Table 3). From 2012-2019, farming accounted for 87.5 percent of the number of Fuel Tax Credit claims. The remainder of known claims is made by taxpayers involved in commercial activities (8.1%), commercial fishing (0.1%), and other enterprises (2.8%). The remainder (1.5%) could not be attributed to a known activity.

For individual income taxpayers with claims to the Fuel Tax Credit in tax years 2012 through 2019, a greater share of households who have claimed Fuel Tax Credits have a higher adjusted gross income (AGI) than all filers (see Figure 1). About 25 percent of all filing households have an AGI of \$75,000 or higher; the percentage of households with Fuel Tax Credit claims that have a household AGI of \$75,000 or higher is 32 percent. However, more than 12 percent of Fuel Tax Credit claimants report zero or negative AGI (shown in the “No AGI” category), likely reflecting farm losses.

V. Conclusion

The Fuel Tax Credit exists in order to allow taxpayers to receive a refund for Iowa fuel tax paid related to purchases of fuel used for a nontaxable purpose. Based on the data available from electronic claims, the tax credit is most often used by farmers. While some taxpayers chose to file fuel tax refunds, there are still a large number of taxpayers who elect to file Fuel Tax Credit claims on their income tax returns.

Iowa's Fuel Tax Credits
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Tables and Figures

Table 1. Iowa Fuel Tax Refunds for Agricultural or Off-Road Purposes, Calendar Years 2012 – 2019

Year	Number of Fuel Refunds	Total Fuel Refunds	Average Fuel Refund
2012	765	\$548,329	\$717
2013	682	\$462,695	\$678
2014	581	\$462,460	\$796
2015	645	\$536,560	\$832
2016	595	\$587,165	\$987
2017	529	\$563,874	\$1,066
2018	488	\$576,536	\$1,181
2019	486	\$554,212	\$1,140
Total	2,743	\$2,818,347	
Average	549	\$563,669	\$1,027

Source: Iowa Department of Revenue, Fuel Tax Refund Report

Table 2. Iowa Fuel Tax Credit Claims by Tax Type, Tax Years 2006-2019

Year	Individual Income Tax			Corporation Income Tax		
	Number of Fuel Tax Credit Claims	Total Fuel Tax Credit Claims	Avg Fuel Tax Credit Claim	Number of Fuel Tax Credit Claims	Total Fuel Tax Credit Claims	Avg Fuel Tax Credit Claim
2006	30,817	\$3,881,610	\$126	1,820	\$652,196	\$358
2007	29,658	\$3,707,044	\$125	1,739	\$560,703	\$322
2008	28,481	\$3,444,134	\$121	1,635	\$812,483	\$497
2009	26,395	\$3,235,861	\$123	1,533	\$713,029	\$465
2010	25,885	\$3,097,695	\$120	1,455	\$497,699	\$342
2011	24,519	\$2,801,654	\$114	1,375	\$529,479	\$385
2012	23,025	\$2,620,646	\$114	1,254	\$421,424	\$336
2013	22,254	\$2,468,534	\$111	1,210	\$449,420	\$371
2014	21,358	\$2,445,355	\$114	1,083	\$495,932	\$458
2015	19,254	\$3,259,299	\$169	1,079	\$729,747	\$676
2016	19,117	\$3,597,337	\$188	1,024	\$737,319	\$720
2017	18,236	\$3,366,386	\$185	962	\$588,077	\$611
2018	17,329	\$3,226,563	\$186	876	\$587,317	\$670
2019*	16,140	\$3,037,497	\$188	482	\$239,179	\$496
Total	322,468	\$44,189,615		17,527	\$8,014,004	
Overall Average	23,033	\$3,156,401	\$137	1,252	\$572,429	\$457
Avg 2006-2014**	25,821	\$3,078,059	\$119	1,456	\$570,263	\$392
Avg 2015-2019**	18,015	\$3,297,416	\$183	885	\$576,328	\$652
Pct Increase in Avg Credit			54%			66%

*Incomplete tax year

**Fuel tax rates increased \$.10 per gallon in 2015-2019 over 2006-2014 rates

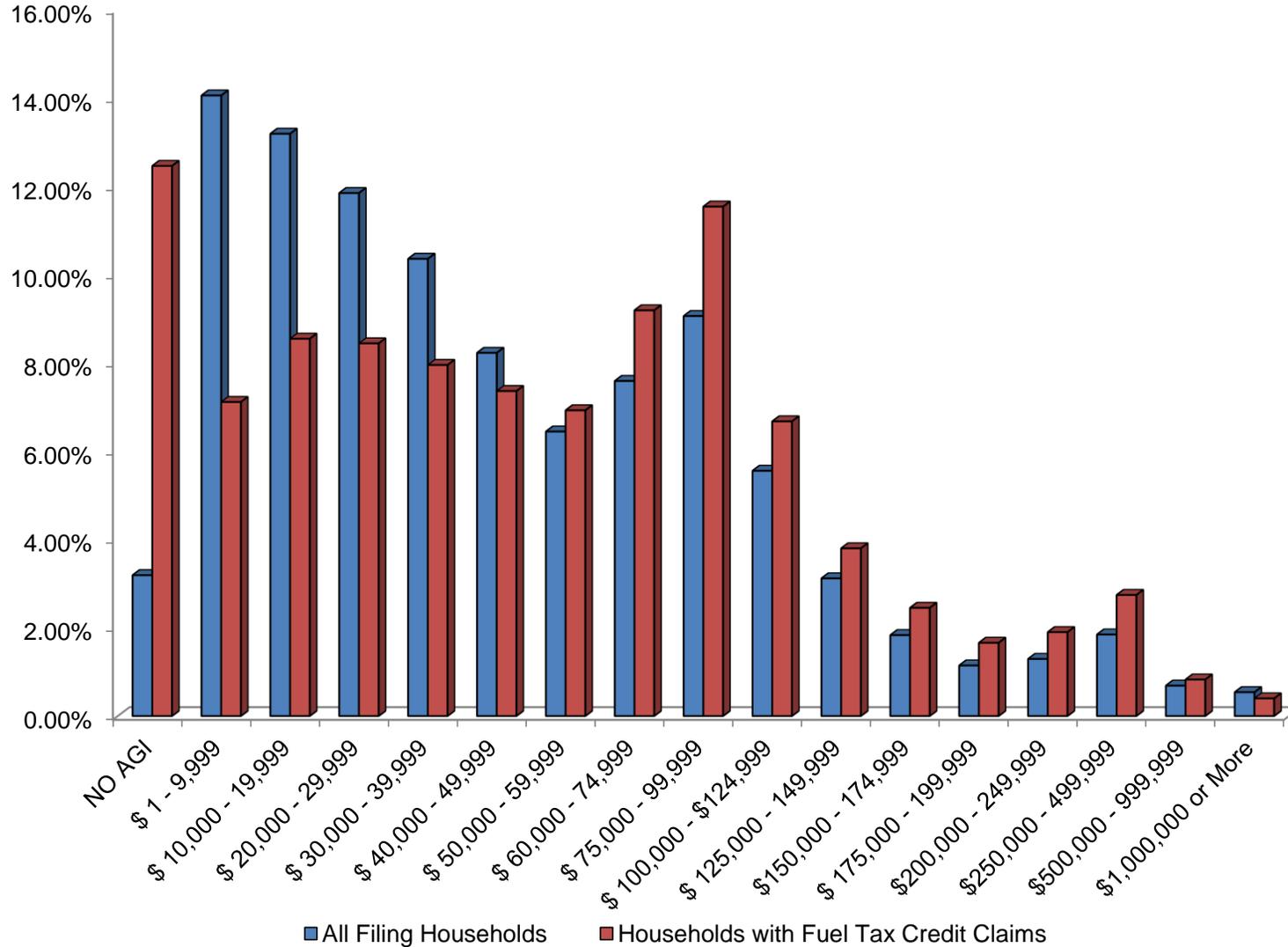
Source: Iowa Department of Revenue, Income Tax Forms IA1040 and IA1120

Table 3. Electronically Filed Iowa Fuel Tax Credit Claims by Reason and Tax Year

	Tax Year					
	2012		2013		2014	
	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims
Farming	19,626	90.43%	19,268	90.13%	18,625	89.38%
Commercial	1,624	7.48%	1,663	7.78%	1,662	7.98%
Commercial Fishing	20	0.09%	24	0.11%	27	0.13%
Other	428	1.97%	421	1.97%	463	2.22%
Unknown	4	0.02%	1	0.00%	60	0.29%
Total	21,702	100.00%	21,377	100.00%	20,837	100.00%
	2015		2016		2017	
	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims
	Farming	16,107	87.6%	15,929	86.6%	15,025
Commercial	1,544	8.4%	1,533	8.3%	1,491	8.5%
Commercial Fishing	16	0.1%	17	0.1%	14	0.1%
Other	414	2.3%	554	3.0%	605	3.4%
Unknown	299	1.6%	361	2.0%	481	2.7%
Total	18,380	100.0%	18,394	100.0%	17,616	100.0%
	2018		2019		Average	
	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims
	Farming	14,101	84.2%	12,963	83.9%	16,456
Commercial	1,434	8.6%	1,243	8.0%	1,524	8.1%
Commercial Fishing	17	0.1%	18	0.1%	19	0.1%
Other	668	4.0%	635	4.1%	524	2.8%
Unknown	533	3.2%	587	3.8%	291	1.5%
Total	16,753	100.0%	15,446	100.0%	18,813	100.0%

Source: Iowa Department of Revenue, Income Tax Form IA 4136

Figure 1. Percent of Individual Taxpayers with a Fuel Tax Credit Claim Compared to All Tax Filers by Adjusted Gross Income, Tax Years 2012 – 2019



Source: Iowa Department of Revenue, Income Tax Form IA 4136