

Iowa Income Tax Credits and Sales Tax Refunds Related to the Use, Sale, and Production of Fuel

Updated as of July 1, 2012

- **Motor Vehicle Fuel Tax Credit** – Section 422.110

An income tax credit is allowed for the amount of Iowa motor fuel tax paid relating to certain purchases made by individuals and corporations. This credit is allowed for taxpayers who do not have a motor fuel refund permit. This credit has been in place since 1975. The credit is claimed on form IA 4136, and this is a refundable credit.

- **Ethanol Blended Gasoline Tax Credit** – Sections 422.11C and 422.33(11)

Starting in 2002, a tax credit is available to service stations at which more than 60% of the total gasoline sold is ethanol blended gasoline. **This credit expired on December 31, 2008, and has been replaced by the ethanol promotion tax credit.** The credit is equal to 2 ½ cents for each gallon sold in excess of 60%. The credit is computed on form IA 6478. This is a refundable credit.

- **E85 Gasoline Promotion Tax Credit** – Sections 422.11O and 422.33(11B)

Effective for E85 gasoline sold on or after January 1, 2006, a tax credit is available to retail dealers of gasoline who sell E85 gasoline. The credit is available in the following amounts:

Calendar years 2006, 2007 and 2008	25 cents
Calendar years 2009 and 2010	20 cents
Calendar year 2011	10 cents
Calendar year 2012-2017	16 cents
Calendar year 2018 and subsequent years	0 cents

A retail dealer of gasoline will be able to claim the E85 gasoline promotion tax credit even if the dealer claims an ethanol blended gasoline tax credit for the same tax year for the same ethanol gallons sold for 2006-2008, or claims the ethanol promotion credit for the same tax year for the same ethanol gallons sold for 2009-2017. In addition, a taxpayer whose tax year ends after December 31, 2017, can claim the credit for gasoline sold between the beginning of the tax year and December 31, 2017. Any credit in excess of the tax liability is refundable. The credit can be claimed on form IA 135.

- **Biodiesel Blended Fuel Tax Credit** – Section 422.11P and 422.33(11C)

Effective January 1, 2006, an income tax credit is available to retail dealers who sell biodiesel blended fuel through motor pumps during the tax year. Of the total gallons on diesel fuel sold by the retail dealer during the tax year, 50% or more must be biodiesel fuel to

be eligible for the tax credit for tax years beginning prior to January 1, 2009. For tax years beginning on or after January 1, 2009, the credit is computed on a site-by-site basis, so any site that met the 50% test would be eligible for the tax credit. For tax years beginning on or after January 1, 2012, the 50% test has been eliminated. The tax credit applies to biodiesel blended fuel formulated with a minimum percentage of 2% by volume of biodiesel, if the formulation meets the standards of Iowa Code section 214A.2, for gallons sold through December 31, 2012. For gallons sold on or after January 1, 2013, the biodiesel blended fuel must be formulated with a minimum percentage of 5% by volume of biodiesel.

The tax credit equals 3 cents multiplied by the total number of gallons of biodiesel blended fuel gallons sold during the retail dealer’s tax year through December 31, 2011. For gallons sold starting in 2012, the tax credit rate is as follows:

Year Gallons Sold	Tax Credit Rate At least B2, but less than B5	Tax Credit Rate B5 or above
2012	2 cents	4.5 cents
2013-2017	0 cents	4.5 cents
2018	0 cents	0 cents

This credit will expire on January 1, 2018, and any credit in excess of the tax liability is refundable. The credit can be claimed on form IA 8864.

- **Ethanol Promotion Tax Credit** – Section 422.11N and 422.33(11A)

Effective January 1, 2009, an ethanol promotion tax credit is available to retail dealers of ethanol blended gasoline which replaced the ethanol blended gasoline tax credit. The amount of the tax credit is based on the pure amount of ethanol gallons sold. (For example, 10 gallons of E10 equals 1 gallon of pure ethanol) The credit is repealed on January 1, 2021.

The amount of the tax credit depends on whether the retail dealer attains a biofuel threshold standard, and how many gallons of motor fuel are sold in a year. The biofuel threshold standards for retail dealers who sell more than 200,000 gallons in a year, compared with the biofuel threshold standards for dealers who sell 200,000 gallons or less in a year, are set forth below:

Calendar Year	Percentage more than 200,000	Percentage 200,000 or less
2009	10%	6%
2010	11%	6%
2011	12%	10%
2012	13%	11%
2013	14%	12%
2014	15%	13%
2015	17%	14%
2016	19%	15%

2017	21%	17%
2018	23%	19%
2019	25%	21%
2020	25%	25%

The credit is calculated separately for each retail motor fuel site for tax years beginning prior to January 1, 2011. For tax years beginning on or after January 1, 2011, taxpayers have the option to compute the credit and the biofuel threshold standard on a companywide basis or a site-by-site basis. The option chosen for the 2011 tax year must be used for subsequent tax years unless the Department consents to a change.

For the 2009 and 2010 tax years in which the retail dealer has met the threshold, the credit is 6 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by 2% or less, the credit is 4 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by more than 2% but not more than 4%, the credit is 2 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by 4% or more, then no credit is allowed.

The credit amounts are as follows for the 2011 calendar year, and for the 2012-2020 calendar years:

Biofuel Threshold Percentage Disparity	Tax Credit Rate 2011 Gallons	Tax Credit Rate 2012-2020 Gallons
0%	8 cents	8 cents
0.01% to 2.00%	6 cents	6 cents
2.01% to 4.00%	2.5 cents	4 cents
4.01% or more	0 cents	0 cents

The retail dealer determines the biofuel percentage by summing the pure ethanol gallons and the pure biodiesel gallons sold during the calendar year, and dividing this sum by the total gasoline gallons sold during the calendar year. While the biodiesel gallons are included in the computation of the biofuel percentage to determine if the threshold is met, only the pure ethanol gallons sold are used in determining the amount of the credit.

EXAMPLE: A retail dealer only operates one motor fuel site. The number of gallons of gasoline sold at this site in 2009 equals 100,000 gallons. This consisted of 5,000 gallons of E85, 80,000 gallons of E10 and 15,000 gallons not containing ethanol. The average ethanol content of E85 gasoline during 2009 was 79%. The dealer also sold during 2009, of which 5,000 gallons was B2 (2% biodiesel). The pure ethanol gallons is 11,950 (5,000 times 79% equals 3,950. 80,000 times 10% equals 8,000. 3,950 plus 8,000 equals 11,950). The pure biodiesel gallons sold is 100, or 5,000 times 2%. The total of 11,950 and 100, or 12,050, is divided by the total gasoline gallons sold of 100,000 to arrive at a biofuel percentage of 12.05%. Since this exceeds the 6% threshold for a dealer selling less than 200,000 gallons, the credit is 6 ½ cents times 11,950, or \$777.

A retail dealer of gasoline will be able to claim the ethanol promotion tax credit even if the

dealer claims either the E85 gasoline promotion tax credit or the E-15 plus gasoline promotion tax credit for the same tax year for the same ethanol gallons sold. For retail dealers of gasoline whose tax year is not on a calendar year basis, the retail dealer may compute the tax credit on the gallons of pure ethanol sold during the year using the applicable credit amounts as shown above. Any credit in excess of the tax liability is refundable. This credit is claimed on form IA 137.

- **E-15 Plus Gasoline Promotion Tax Credit** – Sections 422.11Y and 422.33(11D)

An E-15 plus gasoline promotion tax credit is available to retail dealers of gasoline who sell E-15 plus gasoline. This is gasoline with an ethanol content of at least 15%, but less than 70% (Ethanol with a content of 70% or higher is classified as E-85 gasoline).

The tax credit rate is three cents per gallon for calendar years 2012-2014, and two cents per gallon for calendar years 2015-2017. The tax credit is repealed effective January 1, 2018. Any tax credit in excess of the tax liability is refundable.

The credit is available for E-15 plus gallons sold on or after July 1, 2011. Gallons sold from July 1, 2011 through December 31, 2011 will receive a tax credit equal to three cents per gallon of E-15 plus gasoline sold. The retail dealer can claim the ethanol promotion tax credit for the same ethanol gallons used to calculate the E-15 plus gasoline promotion tax credit. The credit is claimed on form IA 138.

- **High Quality Job Creation Program** – Section 15.329

Effective July 1, 2005, through June 30, 2009, the High Quality Job Creation Program has replaced the New Jobs and Income Program and the New Capital Investment Program. This will affect tax years ending on or after July 1, 2005. These businesses must still be approved by the Iowa Economic Development Authority to qualify for the tax credits. The amount of tax credits is dependent on the number of jobs created and the qualifying investment made. The new jobs must pay at least 130% of the average county wage to be eligible for these tax credits. The tax credits are as follows:

Pay 130% - 159% of average county wage

- Number of new jobs is zero
 - Investment less than \$100,000 – 1% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 1% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 1% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 1-5
 - Investment less than \$100,000 – 2% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 2% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 2% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 6-10
Investment less than \$100,000 – 3% Investment tax credit
Investment of \$100,000 – \$499,999 – 3% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 3% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 11-15
Investment less than \$100,000 – 4% Investment tax credit
Investment of \$100,000 – \$499,999 – 4% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 4% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 16 or more
Investment less than \$100,000 – 5% Investment tax credit
Investment of \$100,000 – \$499,999 – 5% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 5% Investment tax credit, sales tax refund and additional R & D credit

Pay 160% or more of average county wage and investment is at least \$10 million

- Number of new jobs is 21-30
6% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 31-40
7% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 41-50
8% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 51-60
9% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 61 or more
10% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

The investment tax credit is amortized equally over a 5-year period, instead of the entire credit being available upon project completion. The investment tax credit in excess of the tax liability can be credited to the tax liability for the following seven years or until depleted, whichever occurs first.

The investment tax credit remains at 10% for both the enterprise zone program and the eligible housing enterprise zone program. However, the investment tax credit must be amortized over a 5-year period for the enterprise zone program for projects approved on or after July 1, 2005.

This program has been replaced by the High Quality Jobs program effective July 1, 2009.

- **High Quality Jobs Program** – Sections 15.329

Effective July 1, 2009, the High Quality Jobs program has replaced the high quality jobs creation program. The program is administered by the Iowa Economic Development Authority. Businesses can retain jobs and still qualify for tax incentives. The average county wage component has been changed to a qualifying wage threshold. The business must pay 120% of the qualifying wage threshold by the project completion date until the maintenance period completion date. If the business is located in an economically distressed area, the business must pay at least 100% of the qualifying wage threshold. A business cannot be a retail business or a business where entrance is limited by a cover charge or membership requirement to qualify for the tax incentives.

The tax incentives for the High Quality Jobs Program are as follows:

- Number of new or retained jobs is zero
 - Investment less than \$100,000 – 1% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 1% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 1% Investment tax credit, sales tax refund and additional R & D credit
- Number of new or retained jobs is 1-5
 - Investment less than \$100,000 – 2% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 2% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 2% Investment tax credit, sales tax refund and additional R & D credit
- Number of new or retained jobs is 6-10
 - Investment less than \$100,000 – 3% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 3% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 3% Investment tax credit, sales tax refund and additional R & D credit
- Number of new or retained jobs is 11-15
 - Investment less than \$100,000 – 4% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 4% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 4% Investment tax credit, sales tax refund and additional R & D credit
- Number of new or retained jobs is 16 or more and the investment is less than \$10 million

Investment less than \$100,000 – 5% Investment tax credit
Investment of \$100,000 – \$499,999 – 5% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 5% Investment tax credit, sales tax refund and additional R & D credit

- Number of new or retained jobs is 31-40, and the investment is \$10 million or more
6% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new or retained jobs is 41-60, and the investment is \$10 million or more
7% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new or retained jobs is 61-80, and the investment is \$10 million or more
8% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new or retained jobs is 81-100, and the investment is \$10 million or more
9% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new or retained jobs is 101 or more, and the investment is \$10 million or more
10% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- **Investment Tax Credit** – Section 15.333, 15.333A, 15E.193B(6), 15A.9(4), 422.11F, 422.33(12) and 422.60(5)

Starting in 1994, for taxpayers approved by the Iowa Economic Development Authority under the New Jobs and Income Program (through FY05), Enterprise Zone Program, Eligible Housing Enterprise Zone Program, or Eligible Development Business Program (through FY04), an investment tax credit is available equal to 10% of the cost of machinery and equipment and improvements to real property. This is a nonrefundable credit, with a 7-year carryforward. The credit is claimed on form IA 3468.

Starting in July 2002, for businesses involved in value-added agricultural projects, any unused investment tax credit was eligible for a refund. The refund is capped at \$4 million per fiscal year, and cannot be claimed until the year following completion of the project. Starting in July 2005, projects involving biotechnology products are also included, along with value-added agricultural products, in the \$4 million of refundable credits for the enterprise zone and the high quality job creation program. **The \$4 million of refundable credits was repealed effective April 15, 2010; therefore, no credits will be issued for fiscal years ending June 30, 2010 and for subsequent fiscal years.**

Starting in 2003, for the investment tax credit for eligible housing projects only, the credit can be transferred to another person or entity, if low-income housing credits under section 42 of the Internal Revenue Code were used to help finance the housing project. Effective for projects beginning on or after July 1, 2005, the investment tax credit can be transferred if the housing development is located in a brownfield site or in a blighted area. The investment tax credit for eligible housing projects cannot exceed 10% of \$140,000 for each home or individual unit in a multiple dwelling unit building.

Starting with projects approved on or after March 17, 2004, leased property is eligible for the investment tax credit. The leased property must involve a new building or major renovation, and cannot include an existing building. The credit is computed based on the annual base rent paid to a third-party developed for a period not to exceed 10 years.

NOTE: Effective for fiscal years beginning on or after July 1, 2012, the amount of tax credit awards for the following programs administered by the Iowa Economic Development Authority cannot exceed \$120 million:

- High Quality Jobs Program
 - Enterprise Zone Program
 - Enterprise Zone Eligible Housing Program
 - Assistive Device Tax Credit
 - Redevelopment Tax Credit
 - Innovation Fund Tax Credit
 - Qualifying Business and Community-Based Seed Capital Fund Credit
- **Blodiesel Production Sales/Use Tax Refund** – Section 423.4(9)

For biodiesel gallons produced between January 1, 2012 and December 31, 2014, a person who qualifies as a biodiesel producer may apply for a refund of the amount of sales or use tax imposed and paid upon purchases made by the person. The person must be engaged in the manufacturing of biodiesel and must have registered with the U.S. environmental protection agency as a manufacturer of biodiesel. The biodiesel manufactured must be used in biodiesel blended fuel.

The refund amount is determined by multiplying the total number of gallons of biodiesel produced in Iowa during each quarter of a calendar year by a designated rate, as shown below:

Calendar year	Refund amount per gallon
2012	3 cents
2013	2.5 cents
2014	2 cents
2015	0 cents

A biodiesel producer is only eligible for the refund for no more than 25 million gallons of

biodiesel produced during each calendar year. No refund is allowed for biodiesel gallons produced on or after January 1, 2015.

The Department will refund the amount claimed after subtracting any amount of Iowa sales or use tax imposed and paid upon purchases by the biodiesel producer. The biodiesel producer will file refund claims on form IA 843 on a quarterly basis, and refunds will be issued by the Department on a quarterly basis.