



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 first 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 limited 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 considered 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 nonhighway purposes.

For Iowans using diesel fuel for nontaxable purposes, they have the option to purchase dyed diesel fuel that is not 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.<sup>1</sup>

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

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<sup>1</sup> 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.

the 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, 672 fuel tax refunds were issued totaling \$0.5 million during each year between 2012 and 2014 for taxpayers using the fuel for agricultural or off-road purposes (see Table 1).<sup>2</sup> 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. On average, over 25,800 claims are made each year, although the number of claims has been dropping in every tax year. Individual income tax claims exceeded 30,000 in tax year 2006 but only 21,000 in tax year 2014. Fuel Tax Credit claims made against corporation income tax have also been decreasing with 1,820 claims in 2006 but only 871 in tax year 2014. The average number of claims against corporation income tax is 1,430. The average claim against individual income tax is \$119 while the average claim against corporation income tax is \$386.

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<sup>2</sup> 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.

While counts of tax credit claims have fallen, the average individual and corporation claims 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. Based on the relative change in the tax rates, average Fuel Tax Credit claims are expected to increase roughly 42 percent for tax year 2015 and 50 percent for tax years 2016 and later.

An important piece of information that can be gathered from electronically filed individual and corporation income tax returns, which captures the data provided by the taxpayer on the IA 4136, is the reason for the Fuel Tax Credit claim. The primary reason for Fuel Tax Credit claims being filed is farming (see Table 3). Farming accounts for 90 percent of the number of Fuel Tax Credit claims. The remainder of known claims is made by taxpayers involved in commercial activities (7.9%), commercial fishing (0.1%), and other enterprises (2.1%).

When looking at the type of fuels claimed by reason for the claim in 2014, over 88 percent of the number of claims is claimed by farmers (see Table 4). The analysis only considers the 2014 tax year as the data for tax years 2012 and 2013 is incomplete. The total of claims in Table 4 does not match the number of claims because some taxpayers report nontaxable uses for multiple fuel types on their tax credit claim and so those taxpayers show up more than once. For almost every reason, the highest dollar amount of claims is for ethanol blended fuel. However, for taxpayers claiming the tax credit for commercial purposes the number of diesel fuel gallons claimed is actually higher. Taxpayers have the option of purchasing tax-free dyed diesel if the fuel will be used for nontaxable purposes; there is no similar option for gasoline.

For individual income taxpayers with claims to the Fuel Tax Credit in tax years 2012 through 2014, 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 24 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 nearly 34 percent. However, nearly 10 percent of Fuel Tax Credit claimants report zero or negative AGI (shown in the "No AGI" category, likely reflect 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.

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**Iowa's Fuel Tax Credits**  
**Tax Credits Program Evaluation Study**  
**Tables and Figures**

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**Table 1. Iowa Fuel Tax Refunds for Agricultural or Off-Road Purposes, Calendar Years 2012 – 2014**

Year	Number of Fuel Refunds	Total Fuel Refunds	Average Fuel Refund
2012	765	\$548,329	\$717
2013	682	\$462,695	\$678
2014	570	\$461,386	\$809
Total	2,017	\$1,472,410	
Average	672	\$505,512	\$735

Source: Iowa Department of Revenue, Fuel Tax Refund Report

**Table 2. Iowa Fuel Tax Credit Claims by Tax Type, Tax Years 2006-2014**

Tax Year	Individual Income Tax			Corporation Income Tax		
	Number of Fuel Tax Credit Claims	Total Fuel Tax Credits	Average Fuel Tax Credit Claim	Number of Fuel Tax Credit Claims	Total Fuel Tax Credits	Average 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	1,532	\$712,979	\$465
2010	25,885	\$3,097,695	\$120	1,454	\$497,646	\$342
2011	24,519	\$2,801,654	\$114	1,373	\$529,291	\$385
2012	23,025	\$2,620,646	\$114	1,248	\$420,322	\$337
2013	22,254	\$2,468,534	\$111	1,197	\$446,493	\$373
2014*	21,358	\$2,445,355	\$114	871	\$343,641	\$395
Total	232,392	\$27,702,533		12,869	\$4,975,754	
Average	25,821	\$3,078,059	\$119	1,430	\$552,862	\$386

\*Tax Year incomplete

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 Years, 2012 – 2014**

	Tax Year					
	2012		2013		2014	
	Number of Taxpayers	Distribution of Filers	Number of Taxpayers	Distribution of Filers	Number of Taxpayers	Distribution of Filers
Farming	20,315	90.22%	20,006	89.98%	18,730	89.23%
Commercial	1,715	7.62%	1,764	7.93%	1,706	8.13%
Commercial Fishing	20	0.09%	24	0.11%	28	0.13%
Other	442	1.96%	440	1.98%	465	2.22%
Unknown	25	0.11%	1	0.00%	62	0.30%
Total	22,517	100.00%	22,235	100.00%	20,991	100.00%

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

**Table 4. Iowa Fuel Tax Credit Claims by Fuel Type and Claim Reason,  
Tax Year 2014**

	Farming		Commercial		Commercial Fishing, Other, and Unknown	
	Number of Taxpayers		Number of Taxpayers		Number of Taxpayers	
<b>Ethanol Blended Fuel</b>						
Number of Gallons		8,610,729		1,258,643		326,153
Amount of Tax Credits	18,329	\$1,782,324	1,347	\$134,971	519	\$58,501
Average Tax Credit Claim		\$97		\$100		\$113
<b>Undyed Diesel Fuel</b>						
Number of Gallons		1,592,196		1,737,944		182,473
Amount of Tax Credits	1,824	\$355,579	687	\$117,031	108	\$34,975
Average Tax Credit Claim		\$195		\$170		\$324
<b>Special Fuel (LPG)</b>						
Number of Gallons		42,169		32,064	*	7,743
Amount of Tax Credits	31	\$8,299	51	\$3,675		\$1,316
Average Tax Credit Claim		\$268		\$72		NA
<b>Total</b>						
Number of Gallons		10,245,094		3,028,651		516,369
Amount of Tax Credits	18,730	\$2,146,202	1,706	\$255,677	555	\$94,792
Average Tax Credit Claim		\$115		\$150		\$171
Distribution of Filers	89.2%		8.1%		2.6%	

\* Less than 20 taxpayers, information cannot be reported to prevent disclosure of taxpayer information.  
Note: Total number of taxpayers is less than the count of claims by fuel type because some taxpayers claimed multiple fuel types on one form.

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

**Table 5. Percent of Individual Taxpayers with a Fuel Tax Credit Claim Compared to All Tax Filers by Adjusted Gross Income, Tax Years 2012 – 2014**

