



Iowa Department of
REVENUE

**Iowa's Renewable Chemical Tax Credit
Tax Credits Program Evaluation Study**

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**By
Karen Tigges**

**Research and Policy Division
Iowa Department of Revenue**

Preface

Iowa Code Section 2.48 requires certain state agencies, including the Department of Revenue, to review a schedule of tax expenditures each year and file a report with the legislature. Each review is required to assess the tax expenditure's equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the enacting legislation. A review may also include recommendations for better aligning a tax expenditure with the original intent of the enacting legislation. The Renewable Chemical Production Tax Credit is scheduled for review in 2022.

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I. Introduction

The Iowa Renewable Chemical Production Tax Credit (RCPTC) is a refundable tax credit that went into effect January 1, 2017. As the first tax credit of its kind in the nation, it is designed to encourage development of the renewable chemicals industry and stimulate job growth by incentivizing new and existing businesses to produce high-value renewable chemicals in Iowa from biomass feedstock. The tax credit is awarded based on the weight of eligible chemical products in pounds. Eligible products are those that result from the processing of corn, soybeans and other renewable products to produce certain co-products that can be further processed into higher-value basic chemical compounds, such as plastics, textiles, paints or pharmaceuticals. Eligible products do not include a chemical sold or used for food, feed or fuel (Iowa Economic Development Authority, 2022).

II. Iowa Renewable Chemical Tax Credit - Requirements and Limits

A taxpayer that is a renewable chemical producer, or who receives income from an eligible pass-through entity, and that meets the requirements below is eligible for this credit (Iowa Economic Development Authority Administrative Rules, 2017).

- The business must have a facility that produces renewable chemicals and is physically located in the state of Iowa. If a business has facilities located in more than one state, only those renewable chemicals produced at facilities physically located in the state of Iowa may be counted for the purpose of calculating the tax credit.
- The business must be operated for profit and under single management.
- The business may not be an entity providing professional services, health care services, or medical treatments or an entity engaged primarily in retail operations.
- The business must have organized, expanded, or located in the state on or after April 6, 2016.
- The business shall not be relocating or reducing operations as described in Iowa Code section 15.329(1)“b” and as determined under the discretion of the authority.
- The business must be in compliance with all agreements entered into under this program or other programs administered by the authority.

Baseline production must be established by the number of pounds of renewable chemicals produced, if any, by an eligible business during the calendar year prior to the calendar year in which the business first qualified as an eligible business. The credit is \$0.05 per pound of the product that exceeds the amount that the eligible business produced in the baseline year. Effective July 1, 2020, this tax credit award cap stands at \$5 million per fiscal year. Previously, the award cap was \$10 million. The RCPTC is refundable, meaning any amount in excess of tax liability can be refunded or credited as an overpayment to tax liability for the following year. The tax credit is not transferable. A maximum of five credits may be awarded to any one business over the course of the program (Iowa Economic Development Authority PowerPoint, 2022).

To receive the renewable chemical production tax credit, the taxpayer must submit an application to the Iowa Economic Development Authority (IEDA). If the taxpayer meets the criteria for eligibility, the IEDA shall issue to the taxpayer a certification of entitlement for the renewable chemical production tax credit. However, the amount of tax credits that may be approved for a fiscal year shall not exceed \$500,000 for a business in operation for more than five years, and \$1 million for a business in operation for five years or less. Tax credit certificates shall be issued on an earliest filed basis. If total applications exceed \$5 million for a fiscal year, the eligible applicant may be placed on a waitlist. The certification shall contain the taxpayer's name, address, tax identification number, the amount of the credit, and tax year for which the certificate applies. The tax year is determined by the date of production, which must be completed in the calendar year prior to the date of certificate application. The taxpayer (whether corporate or individual) must file IA Form 148 with the tax credit certificate in order to claim the tax credit. In the case of a corporate taxpayer, Schedule C must also be filed with the taxpayer's corporate income tax return.

III. Renewable Chemical Production Incentives at the Federal Level and in Other States

Federal Renewable Chemicals Act of 2021

The Federal Renewable Chemicals Act of 2021 would have allowed a new tax credit for the production of renewable chemicals. Specifically, it would allow a credit for up to 15% of the sales price of each pound of a renewable chemical. A renewable chemical is any chemical that is produced in the United States from renewable biomass and is not less than 95% bio-based content. The bill would also allow a 30% tax credit for investment in renewable chemical production facilities. The bill was introduced in April, 2021, but did not progress out of the House Committee on Ways and Means (Congressional Research Service, 2022).

State Renewable Chemicals Programs

At the state level, few states besides Iowa provide for tax credits for renewable chemical production. Nebraska's program, first effective in calendar year 2022, is similar to Iowa's in that the credit may be applied to corporate or individual income tax (via pass-through taxable income), is refundable, and applies to similar products. The Nebraska tax credit is \$0.075 per pound, and is capped at \$3 million for calendar years 2022 and 2023, and \$6 million for calendar years 2014 and beyond. The maximum tax credits that may be issued to an eligible business under a single tax credit application shall not exceed \$1.5 million per year (Nebraska Legislature, 2021).

Another state, Kentucky, has a renewable chemical production tax credit that is nonrefundable and nontransferable and is available for tax years 2021 through 2024. The credit may be applied against corporate, individual, and limited liability entity income tax. The tax credit is applied at \$0.05 per pound of product, and, along with the biodiesel and renewable diesel production tax credits, is capped at \$10 million per year. The tax

credit may be carried forward for three years, and is scheduled to expire on December 31, 2024 (Kentucky Department of Revenue, 2022).

The last state with a renewable chemical production tax credit is Maine. Effective January 1, 2020, the tax credit is \$0.07 per pound of renewable chemical produced in the state, with higher tax credits (\$0.09-\$0.12 per pound) for chemicals produced from forest-derived renewable biomass, subject to certain employer conditions. The credit is non-refundable and non-transferable, but may be carried forward for 10 years (Maine Legislature, 2020).

A tax credit similar to Iowa's was introduced in the Illinois state legislature in 2017, but did not advance (Illinois 100th General Assembly, 2019).

In Minnesota, an incentive program not tied to taxable income is available to renewable chemical product producers meeting certain production requirements. Since 2015, producers who produce a minimum level of product (1 million pounds as of 2019) are eligible for reimbursement at the rate of \$0.03 per pound of sugar-derived chemical products and \$0.06 per pound of cellulosic-derived chemical products, with a 20% bonus for agricultural cellulosic feedstock of perennial or cover crop biomass. Maximum reimbursement amounts per year and per producer are set based on production poundage. Production at a facility must begin by June 30, 2025. Production that takes place after June 30, 2035, is not eligible for reimbursement. Production facilities may receive payments for up to ten years on a first-come, first-served basis (Minnesota Legislature, 2019).

A comparison of active state renewable chemical production acts and programs can be found in Table 1.

IV. Descriptive Statistics

Since its first award in 2017, the IEDA has awarded nearly \$5 million in RCPTC's to three different producers (see Table 2). (Producer names have been withheld to protect confidentiality.) As shown in Table 2, the maximum award of \$1 million per producer has been met 3 times by 2 producers, and 2 different companies have been awarded 3 credits each out of the maximum of 5 per company. The maximum of \$5 million per fiscal year has not yet been reached. Table 3 displays the awards by tax year, which closely follows fiscal year. About \$4.3 million in claims have been filed, meaning 87 percent of awards have been claimed to date (see Table 4). Corporate claims account for the majority of claims at \$2.8 million, or 64 percent, while individual tax credit claims are \$1.5 million, or 36 percent. Corporate claims have overtaken individual claims in only the past two tax years (see Table 5).

V. Conclusion

The stated purpose of the RCPTC is to encourage development of the renewable chemicals industry and stimulate job growth by incentivizing new and existing businesses to produce high-value renewable chemicals in Iowa from biomass feedstock.

Iowa now has two new major renewable chemical production building projects underway in Eddyville and Clinton which should be in production in 2024. The maximum award of \$1 million, having been achieved by two producers, suggests that there is capacity for the full credit among newer producers. However, incentives from surrounding states such as Nebraska, Minnesota, and potentially Illinois, may temper demand for the credit in Iowa.

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Tables and Figures

Table 1. Active State Renewable Chemicals Production Programs

State	Program	Effective year	Expiration year	Eligible Tax Types	Tax Credit per Pound	Tax Credit Awards Cap per Year	Max Tax Credit Awards per Business	Refundable	Transferable	Maximum Carry Forward Years
Iowa	Renewable Chemical Production Tax Credit	2017	6/30/2030	Corporate Individual	\$0.05	\$10M prior to FY2021; \$5M FY2021 and after	\$1M new businesses (in operation less than 5 years) \$500,000 established businesses; 5 credits per business max	Y	N	N/A
Kentucky	Renewable Chemical Production Tax Credit	2021	2024	Corporate Individual	\$0.05	\$10M (cap with the biodiesel and renewable diesel production tax credits)	unspecified	N	N	3 years
Maine	Renewable Chemicals Tax Credit	2020	unspecified	Corporate Individual	\$.07; up to \$.09-\$.12 for forest-derived products meeting certain requirements	unspecified	unspecified	N	N	10 years
Minnesota*	Renewable Chemical Production Incentive Program	2015	6/30/2035	Direct payment to corporations	\$.03 per pound of sugar-derived chemical products; \$.06 per pound of cellulosic-derived chemical products; 20% bonus for agricultural cellulosic feedstock of perennial or cover crop biomass	599,999,999 pounds per fiscal year	min. 1 million pounds per year; max. 99,999,999 pounds per year	N/A	N	N/A
Nebraska	Renewable Chemical Production Tax Credit	2022	2028	Corporate Individual	\$0.075	\$3M 2022-2023 \$6M 2024 and after	\$1.5M per year	Y	N	N/A

*Minnesota has a production reimbursement paid directly to corporations, rather than in the form of tax credits.

Source: State legislative web pages and <https://www.betalabservices.com/renewable-chemicals-production-tax-credits/>

Table 2. Iowa Renewable Chemical Production Tax Credit Awards by Recipient and Fiscal Year, 2018-2022

	Recipient*	Tax credit
FY18	A	\$542,114
FY19	A	\$1,000,000
FY20	B	\$750,759
FY20	A	\$500,000
FY21	B	\$1,000,000
FY22	B	\$1,000,000
FY22	C	\$165,202
		<u>\$4,958,075</u>

*Recipient names have been withheld to protect confidentiality.

Source: Iowa Department of Revenue, Tax Credit Award, Claim, and Transfer Administration System (CACTAS)

Table 3. Iowa Renewable Chemical Production Tax Credit Awards by Tax Year, 2017-2021

Tax Year	Tax Credit Award	
	N	Sum
2017	1	\$542,114
2018	1	\$1,000,000
2019	2	\$1,250,759
2020	1	\$1,000,000
2021	2	\$1,165,202
Total	7	<u>\$4,958,075</u>

Source: Iowa Department of Revenue, Tax Credit Award, Claim, and Transfer Administration System (CACTAS)

Table 4. Iowa Renewable Chemical Production Tax Credit Claims by Fiscal Year, 2019-2023 and Tax Year, 2017-2021

Tax Year	ClaimFiscalYear					Total
	2019	2020	2021	2022	2023	
Unknown	\$865	-	\$24,945	\$3,749	-	\$29,559
2017	-	\$361,409	-	-	-	\$361,409
2018	-	\$666,667	-	-	-	\$666,667
2019	-	-	\$750,759	\$500,000	-	\$1,250,759
2020	-	-	\$1,000,000	-	-	\$1,000,000
2021	-	-	-	-	\$1,000,000	\$1,000,000
Total	\$865	\$1,028,076	\$1,775,704	\$503,749	\$1,000,000	<u>\$4,308,394</u>

Source: Iowa Department of Revenue, Tax Credit Award, Claim, and Transfer Administration System (CACTAS)

Table 5. Iowa Renewable Chemical Production Tax Credit Claims by Tax Type, Tax Years 2017-2021

TaxType	TaxYear					Total
	2017	2018	2019	2020	2021	
Corporate	-	-	\$750,759	\$1,000,000	\$1,000,000	\$2,750,759
Individual Income	\$167	\$698	\$1,028,076	\$524,945	\$3,749	\$1,557,635
Total	\$167	\$698	\$1,778,835	\$1,524,945	\$1,003,749	\$4,308,394

Source: Iowa Department of Revenue, Tax Credit Award, Claim, and Transfer Administration System (CACTAS)