



Department of Revenue

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

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Preface

Iowa Code Section 2.48 directs the Department of Revenue to review certain tax expenditures it administers. The review shall consist of evaluating the tax credit and assess its equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the legislation that enacted the tax expenditure, as those issues pertain to taxation in Iowa. This is the third 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.

Table of Contents

<i>Preface.....</i>	<i>2</i>
<i>Table of Contents</i>	<i>3</i>
<i>I. Introduction.....</i>	<i>4</i>
<i>II. Iowa Fuel Tax Credit.....</i>	<i>4</i>
<i>III. Fuel Tax Refunds and Credits in Neighboring States</i>	<i>5</i>
<i>IV. Analysis of Iowa Fuel Tax Refunds and Fuel Tax Credit Claims.....</i>	<i>5</i>
<i>V. Conclusion.....</i>	<i>7</i>
Table 1. Iowa Fuel Tax Refunds for Agricultural or Off-Road Purposes, Calendar Years 2012 – 2023.....	9
Table 2. Iowa Fuel Tax Credit Claims by Tax Type, Tax Years 2006- 2023	10
Table 3. Electronically Filed Iowa Fuel Tax Credit Claims by Reason and Tax Year	11
Figure 1. Percent of Individual Taxpayers with a Fuel Tax Credit Claim Compared to All Tax Filers by Adjusted Gross Income, Tax Years 2012 – 2023	13

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 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

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.

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. On average, 551 fuel tax refunds were issued each year from 2012 through 2023 and averaged approximately \$560,000 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 2006-2023, 21,059 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 13,000 in 2023. Fuel Tax Credit claims made against corporation income tax have also steadily decreased, with 1,820 claims in 2006 but only 459 in tax year 2021, rebounding to 618 in tax year 2022 before decreasing again in TY 2023 to 554 claims. The average number of claims against corporation income tax is just slightly over 1,100 per year. The average claim against individual income tax was \$145 in the period from 2006-2023 while the average claim against corporation income tax was \$494 in 2006-2023.

While counts of tax credit claims have fallen over the years, the average individual and corporation claim amounts were steady over the 2006 through 2014 period, before increasing. 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. These excise tax rates have not changed during the period covered in this analysis. Average Fuel Tax Credit claims by individual income taxpayers for the period 2020-2023 were 4.0 percent higher than during period for 2015-2019. Among corporation income taxpayers, the average claim decreased 8.0 percent from the 2015-2019 period to the 2020-2023 period. The averages for these periods are shown in Table 2.

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.

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 2012-2022, farming accounted for 86.4 percent of the number of Fuel Tax Credit claims. The remainder of known claims is made by taxpayers involved in commercial activities (8.8 percent), commercial fishing (0.1 percent), and other enterprises (3.0 percent). The remainder (1.8 percent) could not be attributed to a known activity.

For individual income taxpayers with claims to the Fuel Tax Credit in tax years 2012 through 2023, a greater share of households who have claimed Fuel Tax Credits have a higher adjusted gross income (AGI) than all filers (see Figure 1). In aggregate, 27.1 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 34.3 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
Tax Credits Program Evaluation Study
Tables and Figures

**Table 1. Iowa Fuel Tax Refunds for Agricultural or Off-Road Purposes,
Calendar Years 2012 – 2023**

Year	Number of Fuel Refunds	Total Fuel Refunds	Average Fuel Refund
2012	765	\$548,329	\$717
2013	682	\$462,695	\$678
2014	581	\$396,667	\$683
2015	713	\$722,033	\$1,013
2016	583	\$630,832	\$1,082
2017	521	\$565,814	\$1,086
2018	512	\$520,938	\$1,017
2019	470	\$555,401	\$1,182
2020	441	\$564,538	\$1,280
2021	261	\$317,773	\$1,218
2022	466	\$831,606	\$1,785
2023	614	\$635,812	\$1,036
Total	6,609	\$6,752,439	
Average	551	\$562,703	\$1,022

Source: Iowa Department of Revenue, Fuel Tax Refund Report

Table 2. Iowa Fuel Tax Credit Claims by Tax Type, Tax Years 2006-2023

Year	Individual Income Tax			Corporation Income Tax		
	Number of Fuel Tax Credit	Total Fuel Tax Credit Claims	Avg Fuel Tax Credit Claim	Number of Fuel Tax Credit	Total Fuel Tax Credit Claims	Avg Fuel Tax
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	1,080	\$729,851	\$676
2016	19,117	\$3,597,337	\$188	1,026	\$737,974	\$719
2017	18,236	\$3,366,386	\$185	964	\$588,562	\$611
2018	17,329	\$3,226,563	\$186	886	\$615,753	\$695
2019	16,175	\$3,049,660	\$189	806	\$663,158	\$823
2020	15,318	\$3,019,341	\$197	742	\$560,226	\$755
2021	14,525	\$2,818,284	\$194	459	\$237,872	\$518
2022	13,416	\$2,476,362	\$185	618	\$394,747	\$639
2023	13,293	\$2,442,169	\$184	554	\$341,010	\$616
Total	379,055	\$54,957,934		20,239	\$10,001,518	
Overall Average	21,059	\$3,053,219	\$145	1,124	\$555,640	\$494
Avg 2006-2014**	25,821	\$3,078,059	\$119	1,456	\$570,263	\$392
Avg 2015-2019**	18,022	\$3,299,849	\$183	952	\$667,060	\$700
Avg 2020-2023	14,138	\$2,689,039	\$190	593	\$383,464	\$646
Pct Increase in Avg Credit from the second period to the			4%			-8%

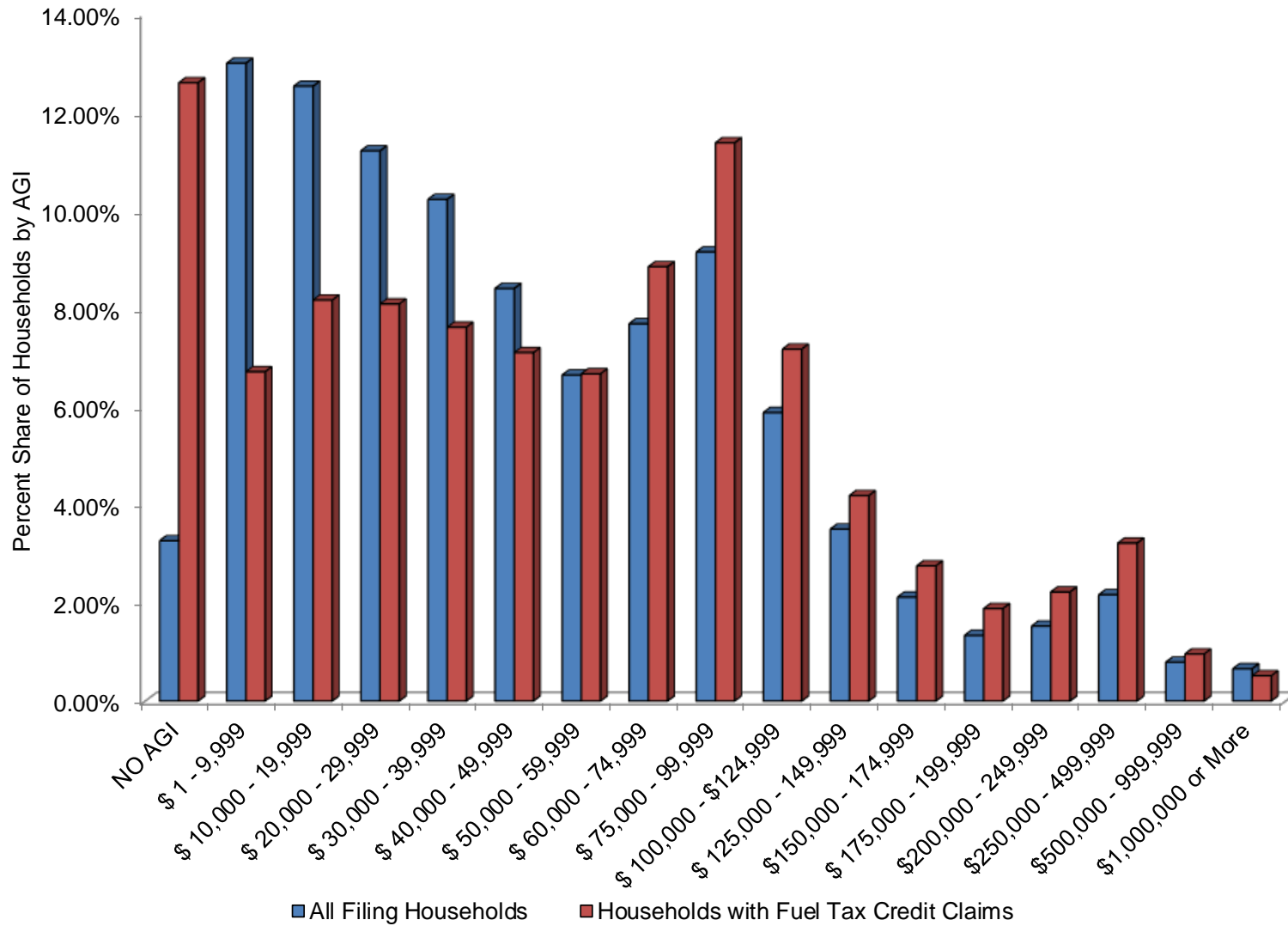
Sources: Iowa Department of Revenue, Income Tax Forms IA 1040 and IA 1120

**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	85.3%
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		2020	
	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%	967	62.2%
Commercial	1,434	8.6%	1,243	8.0%	515	33.1%
Commercial Fishing	17	0.1%	18	0.1%	2	0.1%
Other	668	4.0%	635	4.1%	70	4.5%
Unknown	533	3.2%	587	3.8%	0	0.0%
Total	16,753	100.0%	15,446	100.0%	1,554	100.0%
	2021		2022		Average	
	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims	Number of Claims	Distribution of Claims
Farming	927	61.4%	159	67.1%	11,443	86.4%
Commercial	504	33.4%	66	27.8%	1,162	8.8%
Commercial Fishing	1	0.1%	1	0.4%	13	0.1%
Other	79	5.2%	11	4.6%	393	3.0%
Unknown	0	0.0%	0	0.0%	233	1.8%
Total	1,511	100.0%	237	100.0%	13,243	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 – 2023



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