



# Kansas Perspective on Tax Credits, Refunds and Incentives for Alternative Fuels

**FTA Motor Fuel Tax Annual Meeting  
October 8-11, 2006  
Albuquerque, New Mexico**

Kansas implemented an Agricultural Ethyl Alcohol Producers Incentive July 1, 2001.

K.S.A. 79-34,163 provides that an incentive shall be payable to the agricultural ethyl alcohol producer in the amount of \$.075 for each gallon **sold**, if such producer has sold at least 5,000,000. No producer shall receive the production incentive for more than 15,000,000 gallons.

A producer may receive the incentive for no more than 7 years.

The 2006 Kansas Legislature passed 2 major pieces of legislation relating to tax credits, refund or incentives to promote alternative fuel usage:

- A reduced tax rate for E85.
- A producers incentive for the production of biodiesel fuel for each gallon **sold**.

3

## **Industry Approach**

The Ethanol Industry proposed a reduced tax rate for E85 due to the inequity in BTU's/energy between gasoline and E85, in an effort to encourage the use of ethanol.

4

The 2006 Kansas Legislature passed Senate Bill 544. The bill reduced the tax rate on E85 to \$.17 per gallon effective January 1, 2007.

For a copy of the bill, please visit the Kansas Legislature's website at [www.kslegislature.org](http://www.kslegislature.org). Enter the bill # in the Full Text of Bills section and select 'search'.

5

### **Implementation Planning**

Determining how to implement the reduced tax rate was the most difficult task.

Internet research was performed to identify what other states were doing with alternative fuels, as well as many discussions and e-mails.

Meetings were held with KDOR staff to identify the 'best' implementation method with the least impact on KDOR and our customers.

Meetings were held with our Industry Advisory Group in an effort to understand their needs, concerns and 'handling' of alternative fuels.

6

## Implementation Planning Contd.

KDOR took additional implementation steps by developing an action log.

The action log includes the following:

- Area where changes are needed (MF, MF Refund, IFTA)
- Action item/task
- Owner
- Status
- Task due date
- Comments

The comments section is helpful to track 'why' specific decisions were made and task completion information, should questions arise in the future.

7

## Implementation Planning Contd.

Action item and task identification is critical to ensure key changes needed are identified in the following areas:

- Forms
- System (data entry, screens, return processing, edits, EDI, revenue accounting, etc.)
  - General system design
  - Detailed system design
- Reports
- System testing
- Customer notices
- EDI guide
- Procedures
- Refunds
- Website updates
- Issues/Misc.

8

## Implementation Planning Contd.

Action item information is tracked via a Project Plan, using Microsoft Project software. The Project Plan tracks the tasks using the following data elements:

- Task
- Duration days (# of days to complete the task)
- Start date
- Finish date
- Percentage (% of task complete)
- Resource (associate(s) assigned to the specific task)

Project Plan functionality is a great tracking tool to easily assess the 'completion' status of the implementation project by task, section or entire project.

9

## Motor Fuel - E85 Project Plan.MPP

Project Start Date: Wed 04/05/06  
Project Finish Date: Tue 01/30/07

ID	Task Name	Duration	Start Date	Finish Date	%	Resource Names
1	SB 544 - E85 Tax Rate \$0.17	216 days	d 04/05/06	e 01/30/07	50%	
2	Motor Fuel	216 days	d 04/05/06	e 01/30/07	40%	
3	Create GSD/DSD	30 days	u 04/20/06	d 05/31/06	100%	Melissa,Edie,Cindy
4	<b>Forms and Instruction Changes</b>	41 days	d 04/05/06	d 05/31/06	100%	
5	Distributor Return and Schedules	20 days	d 04/05/06	e 05/02/06	100%	Edie,Cindy,Melissa
6	Retailer Return and Schedules	20 days	u 05/04/06	d 05/31/06	100%	Edie,Cindy,Melissa
7	<b>Identify and Design System Changes</b>	49 days	ri 04/21/06	e 06/27/06	100%	
8	Distributor Return Screen Modifications	29 days	ri 04/21/06	d 05/31/06	100%	Edie,Cindy,Melissa
9	Schedules for Distributor and Retailer	29 days	ri 04/21/06	d 05/31/06	100%	Edie,Cindy,Melissa
10	Retailer Return Screen Modifications	20 days	u 06/01/06	e 06/27/06	100%	Edie,Cindy,Melissa
11	<b>Design EDI Modifications</b>	10 days	d 05/17/06	e 05/30/06	100%	
12	Design modifications to EDI translator	10 days	d 05/17/06	e 05/30/06	100%	Carole,David
13	Design modifications to EDI extractor	10 days	d 05/17/06	e 05/30/06	100%	Carole,David
14	<b>Design Notifications and Educational Materials</b>	186 days	n 04/17/06	ri 12/29/06	71%	
15	General Notice to MF Distributors 2006 Leg 06-04	5 days	n 06/05/06	ri 06/09/06	100%	Carole,Edie,Cindy
16	<b>Obtain Approval to add a new type Schedule 13</b>	36 days	n 04/17/06	at 06/03/06	100%	

10

## Implementation Planning Contd.

### Forms Development:

To ensure tracking of E85 gallons and the reduced tax rate, the need for a new schedule was identified. This schedule was requested from the FTA Uniformity Forms Committee. Schedule 13K was assigned and titled 'Alternative Fuel Tax Credit/Deduction'.

Schedule 13K carries forward to the front of the Distributor return and allows the customer to take a 'gallonage' deduction for the difference between the gasoline/gasohol tax rate and the E85 tax rate.

This was determined to be our best option due to the 'boom' in alternative fuels and the potential for additional reduced tax rates for other alternative fuels in the future. As well, this option reduced the impacts to KDOR and customer systems.

11

KANSAS DEPARTMENT OF REVENUE  
CUSTOMER RELATIONS  
915 SW HARRISON ST.  
TOPEKA, KANSAS 66625-8800  
Phone Number: (785) 368-8222  
Fax: (785) 296-4993  
www.ksrevenue.org

### ALTERNATIVE FUEL TAX CREDIT/DEDUCTION

COMPANY NAME			LICENSE NO.			FEIN NO.			13				
PC - TYPE OF PRODUCT									TYPE OF SCHEDULE MONTH & YEAR				
E85 - 079									Column 14 Handling Allowance Code				
									C - Consumer				
									1 - Licensed Importer				
									O - Other				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
NAME OF CARRIER	CARRIER FEIN	MODE	POINT OF ORIGIN CITY, STATE	POINT OF DESTINATION CITY, STATE	TERMINAL CODE	SOLD TO	PURCHASER'S FEIN	DATE	MANIFEST NUMBER	GROSS GALS	NET GALS	PC	Allow Code

1. Total E85 gallons with an I or C handling allowance code.
  2. Total E85 gallons with an O handling allowance code.
  3. Less 2.5% Handling Allowance sales with an O in column 14 (Do not calculate the 2.5% on consumer sales or licensed importers).
  4. Total gallons eligible for credit (Line 1 plus Line 2 minus Line 3).
  5. Alternative Fuel Deduction (Multiply Total gallons eligible for credit from line 4 by 29.167% or .29167 and enter it in this box). Place this amount on line 7 of MF-52.
- MF-52C  
(Rev. 5/06)
- SEE INSTRUCTIONS ON REVERSE**

12



## **Do's and Don'ts Contd.**

### **Don'ts:**

- Reinvent the wheel. Talk to the industry and other states. Possibly other states have had similar legislation or have encountered a similar situation. Other states can provide a wealth of knowledge and save you time and 'hair loss'.
- Others? Since KDOR is currently in the implementation stages, I'm sure other unexpected issues will arise.

15

**QUESTIONS?  
&  
DISCUSSION?**

16

## Approach

The Kansas Department of Commerce, among many others, proposed a biodiesel fuel producers incentive to promote economic development in Kansas, in an effort to encourage the use of biodiesel.

17

The 2006 Kansas Legislature passed Senate Bill 388. The bill provided for an incentive for the production of biodiesel fuel in the amount of \$.30 for each gallon of biodiesel fuel **sold** by the producer. A biodiesel fuel producer shall file for the production incentive beginning July 1, 2007.

For a copy of the bill, please visit the Kansas Legislature's website at [www.kslegislature.org](http://www.kslegislature.org). Enter the bill # in the Full Text of Bills section and select 'search'.

18

## **Implementation Planning**

The same implementation steps are in process for the biodiesel incentive, as were previously mentioned for the E85 reduced tax rate.

The biodiesel incentive legislation was modeled from the agricultural ethyl alcohol incentive statutes. However, for biodiesel, the language was simplified. The biodiesel incentive does not have minimum or maximum production sales limitations. The only limitation is the amount of money available in the incentive fund. Payout may require pro-ration when the number of Kansas production plants increases.

KDOR is currently working on the biodiesel incentive application, reporting form and a 'tracking' mechanism. Regulations are also being developed.

19

## **Implementation Planning Contd.**

Biodiesel incentive implementation is in the 'early' stages. Legislative Interim Committee Meetings are already in process for the 2007 session beginning in January. Committee discussion includes the current statutory licensing and bonding requirements for biodiesel producers.

KDOR's greatest challenge has been that a producer can 'wear many hats'. As well as being a manufacturer and eligible for the incentive, the produce can be a distributor, retailer, liquid fuel carrier and a consumer. Many of the above have their own licensing, reporting and/or bonding requirements.

20

## Implementation Planning Contd.

Many of the do's and don'ts previously mentioned also apply to the biodiesel incentive implementation.

Attached is a very rough 'draft' of the biodiesel producer incentive reporting form and schedules for your information. These may change!

21

**DRAFT**

KANSAS DEPARTMENT OF REVENUE  
CUSTOMER RELATIONS  
915 SW HARRISON ST.  
TOPEKA, KANSAS 66625-8000  
[www.karevenue.org](http://www.karevenue.org)  
Phone Number: (785) 368-8222  
Fax: (785) 296-4993

### KANSAS QUALIFIED BIODIESEL FUEL PRODUCER'S REPORT

NOTICE: This report must be filed on or  
Before the last day of the month following  
The quarter shown below.

1. Beginning inventory of biodiesel (B100).....
2. Biodiesel produced (Attach Schedule I, MF-182).....
3. Total inventory and biodiesel produced (Total of lines 1 & 2).....
4. Gallons of biodiesel sold to terminals and licensed distributors (Attach Schedule II, MF-183).....
5. Gallons of biodiesel sold to retail stations, unlicensed distributors and/or end consumers. Blenders (Attach Schedule III, MF-184).....
6. Total gallons of biodiesel sold (Total lines 4 & 5).....
7. Inventory adjustment (includes personal use. Loss due to theft, inventory loss or gain, destroyed biodiesel).....
8. Ending inventory of biodiesel (B100) (Line 3 minus line 6 minus line 7).....
9. Biodiesel incentive of \$.30 per gallon claimed on biodiesel gallons sold (Line 6 x \$.30).....  
(Provide copy of the latest report filed)

I certify that all information in this report and attached supporting schedules to the best of my knowledge is true, correct and complete for the time period stated.

\_\_\_\_\_  
Signature of Authorized Person      Title      Date      (\_\_\_\_) Telephone Number

MF-181  
Rev. (9/06)

22

KANSAS DEPARTMENT OF REVENUE  
 CUSTOMER RELATIONS  
 915 SW HARRISON ST.  
 TOPEKA, KANSAS 66625-8000  
 www.ksrevenue.org  
 Phone Number: (785) 368-8222  
 FAX (785) 296-4993

**SCHEDULE I  
 FEEDSTOCK MATERIAL PURCHASED/PRODUCED TO MANUFACTURE BIODIESEL**

\_\_\_\_\_  
 COMPANY NAME FEIN NO. REPORTING PERIOD

(1) NAME	(2) ADDRESS	(3) DESCRIPTION OF PRODUCTS	(4) AMOUNT BY WEIGHT

SEE INSTRUCTIONS ON REVERSE

MF-182 (Rev. 9/06)

KANSAS DEPARTMENT OF REVENUE  
 CUSTOMER RELATIONS  
 915 SW HARRISON ST.  
 TOPEKA, KANSAS 66625-8000  
 www.ksrevenue.org  
 Phone Number: (785) 368-8222  
 FAX (785) 296-4993

**SCHEDULE II  
 BIODIESEL SALES TO TERMINALS AND LICENSED DISTRIBUTORS**

\_\_\_\_\_  
 COMPANY NAME FEIN NO. REPORTING PERIOD

PC - Product Code  
 284 - UNDYED BIODIESEL      290 - DYED BIODIESEL      123 - ALCOHOL

(1) NAME OF CARRIER	(2) CARRIER FEIN	(3) MODE	(4) POINT OF:		(6) SOLD TO	(7) DATE SHIPPED	(8) DOCUMENT NUMBER	(9) GROSS GALLONS	PC
			ORIGIN CITY STATE	DESTINATION CITY STATE					
							TOTAL		

SEE INSTRUCTIONS ON REVERSE

MF-183 (Rev. 09/06)

KANSAS DEPARTMENT OF REVENUE  
 CUSTOMER RELATIONS  
 915 SW HARRISON ST.  
 TOPEKA, KANSAS 66625-8000  
 www.ksrevenue.org  
 Phone Number: (785) 368-8222  
 FAX (785) 296-4993

SCHEDULE III  
 BIODIESEL SALES TO RETAIL STATIONS, UNLICENSED DISTRIBUTORS OR END CONSUMERS

\_\_\_\_\_  
 COMPANY NAME FEIN NO. REPORTING PERIOD

PC - Product Code  
 284 - Undyed Biodiesel 290 - Dyed Biodiesel

(1) NAME OF CARRIER	(2) CARRIER FEIN	(3) MODE	(4) POINT OF:		(6) SOLD TO	(7) DATE SHIPPED	(8) DOCUMENT NUMBER	(9) GROSS GALLONS	PC
			ORIGIN CITY STATE	DESTINATION CITY STATE					
							TOTAL		

SEE INSTRUCTIONS ON REVERSE

MF-184 (Rev. 9/06)

If you have suggestions, etc. please  
 contact me:

Eddie Martin  
 (785)296-5327  
 Eddie\_martin@kdor.state.ks.us



QUESTIONS?  
&  
DISCUSSION?

27