Renewable Fuels Association

ISSUE BRIEF

RENEWABLE TAX PROVISIONS

The Energy Policy Act of 2005 – H.R. 6

Extends the Biodiesel VEETC Tax Credit through December 31, 2008

Modifies the Small Ethanol Producer Credit to 60 million gallons

Creates a new Small Agri biodiesel Producer Credit

Creates Alternative Fuels Installation Fuel Refueling Property of up to 30%.

1. **Extension of VEETC for Agri-Biodiesel, Biodiesel, and Renewable Diesel through December 31, 2008**

   The conference agreement extends the income tax credit, excise tax credit, and payment provisions of the VEETC Agri-Biodiesel and Biodiesel through December 31, 2008 and creates a similar income tax credit, excise tax credit and Payment system for renewable diesel.

   The volumetric excise tax credit for Agri-Biodiesel remains at $1.00 per gallon.

   The volumetric excise tax credit for Biodiesel remains at 50¢.

   The new volumetric excise tax credit for Renewable Diesel is $1.00. Renewable diesel means diesel fuel derived from biomass using a thermal depolymerization process.

   The VEETC credit expires on December 31, 2008.

2. **Increases the Size Limitation on the Small Ethanol Producer Credit to 60 million gallons**

   Historically, small ethanol producers were allowed a 10-cents per gallon production income tax credit on up to 15 million gallons of production annually. The size of the plant eligible for the tax credit was limited to 30 million gallons.

   Under the Energy Policy Act of 2005 (H.R. 6) the size limitation on the production capacity for small ethanol producers increases from 30 million to 60 million gallons. The credit can be taken on the first 15 million gallons of production.

   The tax credit is capped at $1.5 million per year per producer.

In 2004, the Jumpstart our Business Strength (JOBS) Act, H.R. 4520, improved the incentive by allowing the credit to be passed through to the farmer owners of a cooperative and allowed the credit to be offset against the alternative minimum tax (AMT).

Effective for taxable years after date of enactment and sunsets December 31, 2008.

3. Creates a New Small Biodiesel Producer Credit (60 million gallons)

The bill creates a new credit for small agri-biodiesel producers of 10-cents-per-gallon on the first 15 million gallons of agri-biodiesel produced with annual capacity not exceeding 60 million gallons.

Historically, small *ethanol* producers were allowed a 10-cents per gallon production income tax credit on the first 15 million gallons of production annually. The Energy Policy Act of 2005 (H.R. 6) extends the incentive to small agri-biodiesel producers as well.

The size of the agri-biodiesel plant eligible for the credit is a production capacity of 60 million gallons or less.

The tax credit is capped at $1.5 million per year per producer and like the small ethanol producer credit can be passed through to the farmer owners of a cooperative and the credit is allowed to be offset against the alternative minimum tax (AMT).

Effective for taxable years after date of enactment and sunsets December 31, 2008.

4. $30,000 Income tax credit for E85 and B20 Infrastructure

The Energy Policy Act of 2005 (H.R. 6) creates a new credit that permits taxpayers to claim a 30% credit for the cost of installing clean-fuel vehicle refueling property to be used in a trade or business of the taxpayer or installed at the principal residence of the taxpayer on up to $30,000. Under the provision clean fuels are any fuel of at least 85% of the volume of which consists of ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, and hydrogen and any mixture of diesel fuel and biodiesel containing at least 20% biodiesel.

The portion of the credit attributable to property of a character subject to an allowance for depreciation is treated as a portion of the general business credit; the remainder of the credit is allowable to the extent of the excess of the regular tax (reduced by certain other credits) over the alternative minimum tax for the taxable year.

Property used by a tax-exempt entity: The credit applies to the taxpayer who sold the infrastructure property to the tax-exempt entity.

Effective date. - The provision is effective for property placed in service December 31, 2005 and before January 1, 2008. The credit may not be claimed for property placed in service after December 31, 2007. Separately code section 179A (the current deduction) is repealed after December 31, 2005.