



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Advances Ethanol Tax Restructuring, Tax Incentives for Biodiesel, Biomass

____ WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today won near-final approval of his restructuring of ethanol taxes to contribute more money to highways and his tax incentives to encourage energy production from alternative sources. This comes just days after the President signed Grassley’s extension of the wind energy production tax credit into law.

“Investing in alternative forms of clean-burning energy is good for the environment, good for national security and energy independence, good for job creation and economic development, and good for taxpayers,” Grassley said. “I look forward to final congressional approval of these bipartisan alternative energy tax incentives.”

Grassley was the lead Senate negotiator working on a House-Senate conference committee to reconcile differences between each chamber’s manufacturing tax and trade bill. Today, the conference committee is close to finishing its work. By 5 p.m., the conferees will finish voting on the final conference report. If they approve it, as expected, their action will clear the conference report for consideration in each chamber later this week. Grassley secured the following items in the conference report, which faces an up or down vote in each chamber and can’t be amended:

His ***Volumetric Ethanol Excise Tax Credit (VEETC) proposal***. A long-time Grassley priority, this substantially overhauls the fuel excise tax system by ensuring that every gallon of gasoline or gasoline blended with ethanol contributes a full 18.4 cents to the Highway Trust Fund. These initial steps begin restructuring tax incentives for ethanol so ethanol use will contribute to the Highway Trust Fund instead of unrelated government programs.

Enactment of this proposal will generate an estimated \$18.9 billion in new Highway Trust Fund revenues over the next six years – more than \$3 billion per year. This money will allow highway and bridge improvements for safety and efficiency nationwide.

Ethanol continues to serve as a successful domestic renewable transportation fuel. Ethanol producers have built 81 plants and created 150,000 new jobs, including 12,000 manufacturing jobs. In 2004 alone, the industry expects to add more than 22,000 new jobs.

The proposal also extends existing ethanol production tax incentives until 2010 and clarifies that the small ethanol producers tax credit can flow through to the patrons of the cooperatives.

The creation of a biodiesel income tax credit. Under present law, no income tax credit or excise tax rate reduction is provided for biodiesel fuels, unlike the incentives to produce ethanol for use as a highway motor fuel. Grassley's proposal creates a new income tax credit and excise credit for biodiesel fuel mixtures. These new incentives will encourage the production of biodiesel, a clean-burning alternative fuel made from domestic renewable sources, such as soybean oil. The tax incentives apply to biodiesel made from corn, soybeans, sunflower seeds, cottonseeds, canola, crambe, rapeseeds, safflowers, flaxseeds, rice bran, mustard seeds, or animal fats. The excise tax credit is for biodiesel used as highway motor fuel.

Expanded definition of biomass. The package extends the tax credit for the production of electricity from biomass, which Grassley authored and which became law in 1992, and expands the definition of biomass to include saw dust, tree trimmings, agricultural byproducts and untreated construction debris. Also included is the extension of the tax credit for the production of electricity from closed loop biomass co-fired with coal, including switchgrass, which is important in Iowa.

The expanded definition of biomass includes Grassley's legislation to provide new opportunities for energy production, a useful method of waste disposal and increased farm income by creating a production tax credit for electricity generated from swine and bovine waste.

The expanded definition applies an electricity production tax credit to other new resources, including geothermal energy, solar energy, small irrigation power, and municipal solid waste from landfill gas and trash combustion.

On Monday, President Bush signed into law two Grassley priorities on renewable energy:

An extension of the current tax credit for the production of electricity from **renewable resources such as wind** until Jan. 1, 2006. Grassley authored the *Wind Energy Incentives Act of 1993*, which established the first-ever wind energy production tax credit.

A continuation of the full tax credit for **electric vehicles** and the full deduction for **clean-fuel vehicles** (powered by fuels including natural gas, electricity, or 85 percent or more ethanol) until 2006.