



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

MEMORANDUM

To: Reporters and editors
Re: agreement on biodiesel and ethanol tax provisions
Da: Wednesday, Nov. 5, 2003

Sen. Chuck Grassley, chairman of the Committee on Finance, today made the following comment on an agreement he reached today with the House on the ethanol and biodiesel parts of the energy tax incentives package.

“Today’s agreement locks in the VEETC legislation. This puts the tax incentives for ethanol on equal footing with every other energy tax incentive. Those other incentives are derived from the general fund. The incentives include oil and gas and alternative energy incentives such as wind and biomass tax credits. The use of ethanol will no longer take money from the highway trust fund. Our agreement also includes the new tax credit for biodiesel as passed by the Senate. Biodiesel is a new and promising renewable fuel. Our agreement also contains the VEETC legislation’s guarantee that purchasers of ethanol will pay the whole gas tax, making the highway trust fund whole. These highway trust fund changes, including the 2.5 cents transfer and the elimination of the partial exemption for ethanol-blended fuels, will be carried out when Congress next acts on the highway trust fund legislation. It’s important for the highway community to know that the changes will be made at the earliest possible time on the legislative calendar. Since the current trust fund authority expires on Feb. 29, 2004, both the House and Senate must act before then.

“Our agreement on all of these provisions is a big step toward completing the conference report. However, there are a number of other tax and non-tax issues that must be resolved before the energy conference can be completed. The unresolved issues include coal, the CLEAR Act and waivers to the renewable fuels standard.”

11-05-03 **VOLUMETRIC EXCISE TAX CREDIT (“VEETC”) PROPOSAL**

CURRENT LAW

There are several Federal excise taxes that provide revenue for the highway trust fund. Users of diesel fuel pay 24.3 cents per gallon. Users of gasoline pay 18.3 cents per gallon. Users of ethanol receive a 5.2 cents per gallon partial exemption. That is, users of gasoline blended with ethanol pay 13.1 cents per gallon. In addition, 2.5 cents of the Federal excise tax paid with respect to ethanol-blended fuels is transferred to the general fund.

There is an income tax credit available to the ethanol blenders. The credit amount is 52 cents per gallon of alcohol blended. A “blender” is an owner of gasoline who mixes the renewable fuel.

The partial exemptions terminate, along with rest of the highway excise taxes, on September 30, 2007. The blenders credit terminates on December 31, 2007. Highway trust fund expenditure authority terminates on February 29, 2004.

VEETC PROPOSAL (four key components):

1. The partial exemption is converted to an excise tax credit:
 - A. Users of ethanol-blended fuels will pay the full rates of 24.4 cents and 18.4 cents for diesel and gasoline blends respectively.
 - B. A new excise tax credit is created for refiners who blend the ethanol with diesel or gasoline; the credit is roughly equivalent to the partial exemption.
 - C. The highway trust fund will receive the full amount of the revenue from blended fuels.
2. The 2.5 cents excise tax on blended fuels is transferred to the highway trust fund.
3. A new excise tax credit (or income tax credit if the taxpayer elects) is created for biodiesel fuels, effective for 2004 and 2005:
 - A. For virgin biodiesel, the credit amount is \$1 per gallon of biodiesel in a blended fuel.
 - B. For all other biodiesel, the credit amount is 50 cents per gallon.
4. With the exception of the biodiesel provisions, the effective dates are:
 - A. October 1, 2003 through December 31, 2010 for the 2.5 cents transfer.
 - B. January 1, 2004 through December 31, 2010 for the other ethanol reforms.

VEETC COMPROMISE CONTAINED IN NEW PROPOSAL

1. Adopt VEETC as defined above.
2. Exception: partial exemption for ethanol-blended fuels is repealed and 2.5 cents transfer is deferred to next highway trust fund authorization legislation. NOTE: highway trust fund expenditure authority will have to be addressed prior to March 1, 2004.
3. Limit excise tax credits to total amount of excise or income tax owed, with a carryforward/carryback of excise and income tax.
4. Limit reimbursement of overpayment of tax to current law.