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## **TAX INCENTIVES FOR RENEWABLE FUEL AND ENERGY**

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### Background:

Farm Bureau supports policies that will create a diverse, domestic energy supply to fuel America's economic growth and prosperity while strengthening our energy security and bolstering rural economies. Further development and use of renewable fuel and energy sources such as ethanol, biodiesel, biomass and wind are critical to our nation's energy future and will strengthen the overall national security of the United States.

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### Issues:

#### *BIODIESEL FUEL TAX CREDITS*

Biodiesel is a cleaner-burning renewable replacement for petroleum diesel fuel. It can be manufactured from vegetable oils, animal fats, or recycled restaurant grease. Agri-biodiesel comes solely from virgin oils (soybean, corn, sunflower seed, cotton seeds, canola, etc.) or animal fats. Renewable biodiesel is derived from biomass and is treated the same as biodiesel for tax purposes.

Tax incentives for biodiesel expired at the end of 2016. Before then, the law provided an income tax credit for fuels containing biodiesel and was the aggregation of three credits: 1) a blender credit; 2) a producer credit; and 3) a small producer credit. The biodiesel blender credit was \$1.00 per gallon for biodiesel mixed with petroleum diesel fuel. It applied to any blended biodiesel, whether of domestic origin or imported. The biodiesel credit was \$1.00 for each gallon of pure biodiesel. The small agri-biodiesel producer credit was an additional credit of 10 cents per gallon for up to 15 million gallons when agri-biodiesel production capacity did not exceed 60 million gallons per year. The law also provided a biodiesel excise tax credit that could be taken against the taxpayer's fuel tax liability. The credit was \$1.00 per gallon through 2016.

#### *SECOND GENERATION BIOFUEL PRODUCER TAX CREDIT*

Second generation biofuel comes from cellulosic biomass, for example woody crops and agricultural residues or waste. The expired law provided a tax credit of \$1.01 per gallon of fuel produced in the United States through 2016.

#### *ALTERNATIVE FUEL VEHICLE PROPERTY*

Qualified refueling property includes fuel pumps that sell E85 ethanol and fuels containing at least 20 percent biodiesel. The expired law provided a 30 percent credit up to \$30,000 for the cost of installing qualified clean-fuel pumps through 2016.

*RENEWABLE ENERGY FROM BIOMASS (Sect. 45) and BIOGAS (Sect. 48)*

Electricity produced from closed-loop biomass comes from plants grown exclusively for electricity production, for example switch grass. Open-loop biomass is material not originally intended as a fuel source, such as wood chips, manure and farm waste.

The expired law provided a Production Tax Credit of 2.3 cents per kilowatt-hour for electricity produced from closed-loop biomass. The credit for open-loop biomass was 1.2 cents per kilowatt-hour. The credit is generally available for 10 years after a facility begins production. The electricity produced must be sold to an unrelated person. These incentives are in effect through 2019.

Biomass energy producers have the option of taking a 30 percent investment tax credit for installation costs in lieu of the production tax credit. The investment credit is 24 percent for 2017, 18 percent for 2018 and 12 percent for 2019, after which it expires.

Biogas producers could take a 30 percent investment tax credit under Sect. 45 for biogas used to produce electricity. There was no tax credit for biogas projects used to produce fuel, fertilizer and other products.

*RENEWABLE ENERGY FROM WIND (Sect. 48c and 25d)*

Electricity produced from wind that is sold to an unrelated person (the grid) can claim an investment tax credit for 30 percent of installation costs. The investment credit is 24 percent for 2017, 18 percent for 2018 and 12 percent for 2019, after which it expires.

Distributed wind (which includes smaller scale wind and community wind) refers to electrical power generation that occurs close to where the power is consumed, often for on-site usage. Many distributed wind projects and some wind farms are community owned, incorporating local financial participation and control. The law that provided for a 30 percent investment tax credit for the installation cost of systems expired at the end of 2016.

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AFBF Policy:

Farm Bureau supports policies that will create a diverse, domestic energy supply to fuel America's economic growth and prosperity while strengthening our energy security and bolstering rural economies.

Farm Bureau supports H.R.1090, the Technologies for Energy Security Act, because it contains an extension of important tax incentives for small wind energy property.

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