

SUMMARY OF FEDERAL TAX INCENTIVES FOR ALCOHOL FUELS

Federal Excise Tax Exemption for Alcohol-Blended Fuels: The Energy Tax Act of 1978 established a federal excise tax exemption for gasolines containing at least 10 vol% alcohol, defined as ethanol or methanol not produced from petroleum natural gas, coal, or peat that is properly denatured per the specifications of the Bureau of Alcohol, Tobacco & Firearms (BATF).

In the case of ethanol, denaturants which are added are considered part of the alcohol unless they exceed 5% of the volume of alcohol, including denaturants. Ethanol also must be not less than 190 proof to qualify for the incentive.

The Omnibus Reconciliation Act of 1990 reduced the excise tax exemption from the previous 6¢ per gallon to the current 5.4¢ per gallon and extended it through September 30, 2000.

The Energy Policy Act of 1992 revised the tax exemption for blends of ethanol and gasoline that are less than 10 vol%. These prorated blend levels of 5.7 and 7.7 vol% ethanol took effect on January 1, 1993, as follows:

Excise Tax Exemption Schedule for Ethanol-Blended Fuels

Ethanol Volume (vol%)	Oxygen Content (wt%)	Tax Exemption (cents per gallon)
5.7	2.0	3.0
7.7	2.7	4.1
10	3.5	5.4

Income Tax Credit for Alcohol Fuel Blenders: The Crude Oil Windfall Profits Tax Act of 1980 established the first income tax credit for alcohol fuels. It provided a tax credit of 40¢ per gallon of alcohol which could be ethanol or methanol not derived from natural gas, petroleum, or coal. In addition, a credit of 30¢ per gallon was established for ethanol with a proof of between 150 to 190. This provision was to expire on December 31, 1992.

The Surface Transportation Assistance Act of 1982 increased the income tax credit to 50¢ per gallon on alcohols which are at least 190 proof. It also increased the tax credit to 37.5¢ per gallon for lower proof alcohols. This revision of the income tax credit provisions did not alter the expiration date of December 31, 1992.

The Deficit Reduction Act of 1984 made further modifications in the income tax credit for alcohol fuels, effective January 1, 1985. The credit was increased to 60¢ per gallon for ethanol of 190 proof or higher and 45¢ per gallon for lower proof ethanol. As with the tax exemption, alcohol produced from natural gas, petroleum, coal, or peat does not qualify for the tax credit.

The Omnibus Reconciliation Act of 1990 reduced the tax credit for fuel ethanol from 60 to 54¢ per gallon but extended the incentive through December 31, 2000.

"Small Ethanol Producer" Tax Credit: The Omnibus Reconciliation Act of 1990 established a 10¢ per gallon tax credit for ethanol produced at small ethanol facilities effective January 1, 1991.

This tax credit is available to the ethanol producer and is applicable to the first 15 million gallons of ethanol manufactured at one or more facilities with a total capacity of no more than 30 million gallons per year.

This incentive is in effect through December 31, 2000.