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New tax law bears biofuel incentives

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WASHINGTON - When President Barack Obama and congressional leaders successfully negotiated a deal to extend the George W. Bush-era tax cuts during December's lame-duck session, they also resuscitated a slate of tax breaks designed to conserve energy and lessen U.S. dependence on foreign oil.

The new tax law reinstates, for one year, tax credits for biodiesel production. The credits were last offered during 2009. Tax credits for home energy efficiency projects and ethanol production also have been extended for one year.

Sen. Mark Pryor, a Democrat from Arkansas, said he favored the extension of the tax credits because they give alternative-fuel providers, particularly those in Arkansas who convert animal fats and soybeans into fuel, an incentive to invest in large refineries.

"It creates a more stable marketplace," Pryor said, adding that he would have preferred a two- or three-year extension.

In a December online National Review article, Harry de Gorter and Jerry Taylor called biofuel subsidies "indefensible and parochial market distortions." Taylor is a senior fellow at the Cato Institute, a libertarian research and advocacy group in Washington, and de Gorter is an economics professor at Cornell University.

Tax credits were extended or reintroduced for three types of biofuels.

Ethanol blenders, who mix alcohol fuel produced from corn into gasoline, will get a credit of 45 cents per gallon of ethanol.

By far, ethanol blenders are the largest beneficiaries of biofuel tax credits. In 2009, the credits allowed blenders to keep \$5.2 billion that would have otherwise been sent to the Internal Revenue Service.

Biodiesel producers, who turn soybeans and animal fats into fuel, did not receive a tax credit in 2010. In 2009, they received a \$1-per-gallon tax credit, worth \$840 million.

In addition, small agribusinesses may qualify for a 10-cent-per-gallon production tax credit, limited to their first 15 million gallons of annual production, if they produce less than 60 million gallons of biofuel a year. To qualify, these biofuel producers must use vegetable oils or animal fats.

The tax deal passed into law in December reintroduced the biodiesel credit for one year.

The least-used biofuel tax credit is for blenders of cellulosic ethanol, which is made from switch grass, wood chips and plant waste. They did not receive, in the aggregate, as large a tax credit as corn ethanol blenders or biodiesel producers in 2009, because cellulosic ethanol is not commercially produced in large volumes.

The \$1-per-gallon credit allowed cellulosic blenders to receive, in total, \$50 million in tax credits in 2009, and doesn't expire until the end of 2012.

In a July 2010 report, Congress' nonpartisan accounting arm, the Congressional Budget Office, estimated that the cost to taxpayers of replacing a gallon of regular diesel with biodiesel would be about \$2.55.

Manning Feraci, a lobbyist for the National Biodiesel Board, said the tax credits would provide a "kick-start" to the industry.

The group estimates that 2010 production will total 350 million gallons, down from a 2009 peak of 690 million gallons. During that time, the number of plants in the country has dropped from 173 to 140.

Three years ago, Arkansas was home to three biofuel producers: Arkansas Soy Energy, Future Fuels Inc. and Patriot Biofuels. Today, Future Fuels, which operates a plant in Batesville, is the only company in production.

Future Fuels representatives could not be reached for comment.

The tax agreement also extends, for one year, credits available to homeowners who make improvements to their home's energy efficiency and to builders who construct energy-efficient homes.

Homeowners will continue to be eligible for a credit on improvements they make, such as installing better windows or solar panels. The tax credit will be set at 10 percent, with a limit of \$500. That's a reduction of the 30 percent credit, which was capped at \$1,500, that was made available through Friday, as part of the American Recovery and Reinvestment Act of 2009.

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