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U.S. Biodiesel Production and Use Will Cease If Biodiesel Tax Incentive Lapses on December 31, 2009

In General:

Biodiesel is a diesel replacement fuel made from agricultural oils, fats and waste greases that meets the ASTM D6751 fuel specification and the fuel registration requirements of the Clean Air Act. The \$1 per gallon biodiesel excise tax credit is structured in a manner that allows the incentive to offset excise tax liability, and is refundable to the degree that the credit exceeds excise tax liability. The tax incentive is currently set to expire on December 31, 2009.

Mechanics of the Biodiesel Excise Tax Credit:

Specifically, the Internal Revenue Service (IRS) allows taxpayers to claim credit refunds (Form 8849) on a weekly, monthly, or quarterly basis. B 99.9 blends (99.9 percent biodiesel/.1 percent diesel) qualify to claim the current blenders credit. Refunds are typically processed in a 4 to 6 week time frame. Taxpayers who produce taxable biodiesel blends (exceeds 4 percent paraffin content) outside the bulk transfer/terminal system who claim the biodiesel tax incentive are encouraged to avoid excessive claims for payments by limiting credit claims to 75.6 percent of total claims.

How Incentive Encourages Production and Use of Biodiesel:

The liquidity of the incentive allows the value of the \$1 per gallon excise tax credit to be reflected in the actual market price for biodiesel. This in turn helps achieve the tax incentive's policy goal of making biodiesel price competitive with conventional diesel fuel in the marketplace.

The fuels marketplace is a high volume, low margin business, and price sensitive consumers will not purchase fuel that is significantly more expensive than a comparable, competing product. Thus, to achieve the energy security; environmental; and economic benefits associated with the domestic production and use of biodiesel, the value of the incentive must be realized in a timely manner so that it can be reflected in the market price of the fuel. The excise tax credit achieves this policy goal.

Negative Consequences if Biodiesel Tax Incentive Lapses:

If the biodiesel tax incentive expires, the value of the incentive cannot be incorporated in the market price of the fuel, and the price of biodiesel will be significantly higher than petroleum diesel. This will cause market demand for biodiesel to evaporate, and the domestic production, marketing and use of biodiesel in the U.S. will cease. The 51,893 jobs supported by the biodiesel industry last year will be placed in jeopardy. Further, the promise of a retroactive extension of the incentive will provide neither the immediate liquidity nor the certainty that is needed to support the continued production and use of biodiesel as a diesel replacement fuel.