VEETC

In 2004, Congress passed the American Jobs Creation Act of 2004 (P.L. 108-357), which created the Volumetric Ethanol Excise Tax Credit (VEETC). The tax incentive spurs domestic production and accelerates innovation by providing a refundable excise tax credit to blenders and refiners of fuel in the amount of 45 cents per gallon for every gallon of ethanol that is blended into the fuel stock. The tax incentive, which costs approximately $5 billion per year, does not go to ethanol producers. <u>The tax incentive is scheduled to expire on December 31, 2010</u>.

VEETC is the central tax incentive available to the ethanol industry.[1] The VEETC provides a necessary compliment to the Renewable Fuels Standard to ensure the U.S. ethanol industry's productivity is increased and technological efficiencies are improved. It ensures that ethanol is blended in gasoline markets that don't require ethanol either as a state mandate or to meet Clean Air Act requirements. Moreover, while the RFS incentivizes use/consumption, the VEETC encourages investment and incentivizes domestic production, and therefore promotes energy security.

<u>*Economic Benefits of VEETC*</u>

-VEETC allows industry to support almost 400,000 jobs economy wide (distribution, production and R&D)

-Federal tax revenue from ethanol industry in 2009 totaled $8.4 billion, netting the federal government $3.4 billion revenue surplus. Therefore, the tax incentive pays for itself and more.

-Factoring in the additional $7.5 billion in tax revenue to state and local governments, and $21.3 billion saved in foreign oil payments, each federal dollar invested returned more than $7 to the government and economy at large.

<u>*VEETC Helps All Ethanol Producers, including Second Generation Technologies*</u>

-VEETC is a market-based incentive that helps spur demand and investment for all types of ethanol

-The cellulosic and advanced biofuel industry receives benefit of lower prices, and increased demand.

-Helps promote second generation biofuels, given the limited effectiveness of the cellulosic biofuel producer credit (cellulosic credit is based on tax liability, which no cellulosic producers really have)

<u>*Impact of Expiration of VEETC*</u>

-New, soon to be released economic study commissioned by RFA estimates that there will be a 38% contraction in industry as a result of price loss to producer from expiration of VEETC, amounting to loss of 112,000 jobs economy wide

<u>*Current Legislative Proposals*</u>

-Both House and Senate versions call for a 5 year extension of VEETC and Small Ethanol Producer Credit and 3 year extension of Cellulosic Biofuel Producer Credit

-Both extend the secondary tariff on ethanol that offsets the benefit received by foreign ethanol

[1] Other incentives include the Cellulosic Biofuel Producer Credit (CBPTC), which allows a credit up to $1.01 for each gallon of cellulosic ethanol produced, and the Small Ethanol Producer Credit, which allows producers with less than 60 mill gallon per year capacity to take an additional $0.10 cents per gallon credit against their income tax. CBPTC expires January 1, 2013.