American Soybean Association

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April 15, 2015

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable John Thune
Co-Chair, Business Income Tax Working Group
United States Senate
511 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Benjamin Cardin
Co-Chair, Business Income Tax Working Group
United States Senate
509 Hart Senate Office Building
Washington, DC 20510

The Honorable Dean Heller
Co-Chair, Community Development & Infrastructure Working Group
United States Senate
324 Hart Senate Office Building
Washington, DC 20510

The Honorable Michael Bennet
Co-Chair, Community Development & Infrastructure Working Group
United States Senate
458 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Hatch, Ranking Member Wyden, and Senators Thune, Cardin, Heller and Bennet:

The American Soybean Association (ASA) appreciates this opportunity to provide comments on priorities for tax reform. The ASA joined other agricultural organizations in signing the attached letter identifying our priorities on Business Income and Savings & Investment provisions. In addition to the overarching tax policies identified in the agriculture coalition letter, the **ASA also wants to express our strong support for continuation and restructuring of the biodiesel tax credit.**

Soybean farmers have played a major role in the development of the U.S. biodiesel industry and biodiesel has provided a significant market opportunity for U.S. soybean producers. Soybean demand is driven by the protein meal markets (soybeans are 80% meal and 20% oil), and soy oil has traditionally existed in surplus. The emergence of a domestic biodiesel industry provides an important market outlet to utilize surplus soy oil. This has been even more important due to the reduced demand for soybean oil in the food industry stemming from the FDA required trans fat labeling and the subsequent shift away from the use of partially hydrogenated soybean oil.

The biodiesel tax credit has been instrumental in helping establish a domestic biodiesel industry. Under current law, the biodiesel fuels credit is the sum of three credits: the biodiesel mixture credit of $1.00 per gallon used by the taxpayer in the production of a qualified biodiesel mixture, the biodiesel credit of $1.00 per gallon of biodiesel that is not in a mixture with diesel fuel, and the small agri-biodiesel producer credit of 10 cents per gallon for up to 15 million gallons of agri-biodiesel produced by small producers. The credits may be taken as income tax credits and the biodiesel mixture credit may be taken as an excise tax credit.

Like a number of other tax "extenders", the credit lapsed on December 31, 2014. The credit was only first implemented in 2005 and this is the fourth time in six years that the credit has expired, preventing the industry from maximizing the credit's effectiveness. When in place the biodiesel credit has proven successful in growing this industry, and creating a commercially competitive source of domestic, renewable energy.

In its short history, the biodiesel tax incentive has without question stimulated production. When the incentive was established, the U.S. produced roughly 112 million gallons of biodiesel. By 2011 the industry topped 1 billion gallons and in 2014 over 1.7 billion gallons were utilized. This production has filled the majority of the Advanced Biofuel requirement under the Renewable Fuel Standard (RFS) while creating jobs and economic development, especially in rural America, diversifying our fuel supply and increasing our energy independence, and providing significant air quality and environmental benefits. Congress should follow through on the investment that has been made and solidify the establishment of this young domestic industry. For these reasons, we believe the biodiesel tax incentive merits continuation.

The ASA also supports a restructuring of the tax credit from a blender's credit to a production tax credit. This reform has been encompassed in legislation introduced in the U.S. Senate in previous years by Senator Charles Grassley (R-IA) and Senator Maria Cantwell (D-WA). The change will further support domestic biodiesel production versus imported biodiesel, improve administration of the incentive, eliminate potential abuses and improve tax compliance.

Shifting from a blender's credit to a producer's credit would eliminate the ability of foreign produced biodiesel to claim the credit, thus reducing its cost. Imports of foreign-produced biodiesel and renewable diesel have increased significantly in recent years and have the potential for strong future growth. Under the current blender's credit structure, many of these imports are eligible to take the tax credit and in fact are often coming to the U.S. as a direct result of the tax incentive. Changing to a producer's credit available only to domestic production would eliminate these costs and sharply reduce the cost of the incentive while further encouraging growth of domestic manufacturing.

Shifting to a production credit would also have the benefit of simplifying its implementation. The current blender's credit is complex, allowing a large number of business entities to claim the credit at numerous stages along the blending and distribution chain. This creates difficulties for the IRS in administering and enforcing the credit while increasing opportunities for fraud or abuse. Reforming the structure to a producer's credit taken at the point of production would streamline the process and reduce the time and cost burden on both taxpayers and the IRS.

The biodiesel tax incentive has encouraged significant investment, expanded the domestic biodiesel industry, helped it become price competitive with the entrenched petroleum industry, and resulted in increased jobs, diversified energy supplies, and significant environmental benefits. We urge you to support the continuation and restructuring of the biodiesel tax credit.

Sincerely,

Wade Cowan
President