The Blender's Subsidy:
A Bad Investment Tax Credit for Ethanol

For more than 30 years, the corn ethanol industry has been heavily subsidized with lucrative tax credits, yet it continues to ask for more. Invigorated by the national desire to move away from foreign oil, in 2005 the industry persuaded Congress to create the federal Renewable Fuels Standard, which guarantees a market for 15 billion gallons of corn ethanol by the year 2015.[1] The target of this fact sheet is the blender's subsidy, which is a more-than-$5-billion annual tax credit that goes to oil companies that blend ethanol into conventional gasoline. This subsidy is due to expire at the end of this year if biofuel industry efforts to resuscitate it are defeated.

Q: How large is the subsidy?

A: $30 billion over five years. Each gallon of corn ethanol blended into gasoline is subsidized by $0.45.[2] Multiplied by the 12 billion gallons that were blended in 2010 (and 15 billion in 2015) due to the RFS, the total cost is staggering: the tax credit for corn ethanol alone amounted to $5.4 billion dollars in 2010 and this figure continues to grow. By 2015, we'll be doling out $6.75 billion dollars each year for more and more corn ethanol (a total of $31 billion will be handed out between 2011 and 2015).

Q: Who benefits?

A: Big Oil, not farmers. A recent Government Accountability Office report from 2009 noted that it is not farmers who benefit from the tax credit, but instead it is fuel providers and oil companies.[3] That's because Big Oil is responsible for blending the ethanol into gasoline. A 2010 study by Center for Agriculture and Rural Development's Bruce Babcock found that eliminating this wasteful subsidy would have minimal effect on ethanol production and prices[4] – the two areas that do affect farmers.

Q: Where else could the money go?

A: To truly sustainable energy. Seventy-six percent of public funding for renewable energy goes to corn ethanol, while all other cleaner renewables including wind, solar, and biofuels made from other sources than corn split the rest. Allowing this tax credit to expire would free up money to invest in exploring truly sustainable energy sources that could benefit the environment and economy.

Q: What's next?

A: End the tax credit. Congress has the opportunity to allow the main subsidy for corn ethanol, the Volumentric Ethanol Excise Tax Credit, to expire at the end of 2011. This subsidy is expensive and wasteful. In addition, it leads to increased pollution and takes money away from truly sustainable energy solutions.

Endnotes

1 The Environmental Protection Agency. "New Renewable Volume Standards." Web. 6 May 2010. <http://www.epa.gov/otaq/renewablefuels/420f10007.htm#9, web. page viewed May 6, 2010>

2 Internal Revenue Service. "Excise Taxes". Web. 6 May 2010 <http://www.irs.gov/publications/p553/ch05.html>

3 United States. Government Accountability Office. Biofuels: Potential Effects and Challenges of Required Increases in Production and Use. Aug. 2009. Web. 6 May 2010. <http://www.gao.gov/new.items/d09446.pdf>.

4 Babcock, Bruce. Mandates, Tax Credits, and Tariffs: Does the U.S. Biofuels Industry Need Them All? Center for Agricultural and Economic Development Iowa State University, Mar. 2010. Web. 6 May 2010. <http://www.card.iastate.edu/publications/DBS/PDFFiles/10pb1.pdf>.

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