

Biodiesel Taxation Policies Worldwide

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Introduction

Biodiesel

- **A revolutionary Fuel**

Ability to be used in any engine without modification.

Need for Taxation Incentives

- **An economically viable option only with incentives**
- **Manifold Benefits**

Benefits

- **Reduction in dependence on crude oil**
- **Diversified energy resources**
- **Minimization of GHG emissions**
- **Carbon Credits**
- **New Job Opportunities**
- **Financial support and Livelihood to agri-communities.**
- **New cash crops for farmers**
- **Wasteland Utilization**
- **More Consumer Choice and Price competition**

- Over 50 countries have enacted regulations and have given fiscal incentives.

The Case of European Union

■ **Biofuels Use Directive, 2003**

- **Goal**
 - 2% of transportation fuel from biofuels by 2005
 - 5.75% by 2010
- **Not mandatory**
- **Each Member State required to report annually**

■ **Energy Taxation Directive, 2003**

- **Taxation Framework amended to allow for tax incentives for renewable fuels**

contd...

The Case of European Union

■ Fuel Quality Directive, 2003

- Environmental specifications of market fuels (including biofuels)
- Limit on biodiesel blending to 5% by European Committee of Standardization (CEN)

■ Strategy for Biofuels, 2006

- Production and Distribution
- Expanding feedstock supplies
- Enhancing Trade Opportunities
- Aid R&D in biofuels

The Case of European Union

■ **Impact Assessment of Biofuels Directive, Nov 2006**

- Found the objectives to be practically Valid
- Suggested Mandatory Targets

■ **Energy Policy Package: Energy for a Changing World, Jan 2007**

- Combat Climate Change
- Strengthen Energy Security
- EU's Competitiveness

✓ Biofuels could make 14% of TOTAL TRANSPORT FUEL USE BY 2020.

✓ Legally binding minimum of 10% for member states.

The Case of European Union

Germany

- **Eco Tax, 1999**

Eco tax and Mineral Oil Tax on fossil fuels (while biofuels received full exemption in pure form)

- **Petroleum Tax Act, Jan 2004**

Exempted biogenic fuels (in pure or blended forms) from Petroleum Tax
[Article 16 of Council Directive 2003/93/EC of 27 Oct 2003]

- **Energy Tax Act, 1 Aug 2006**

Small Partial Tax on veg. oil based fuels to take account of over compensation.

Germany achieved well in excess the goal of 2% substitution

The Case of European Union

France

- **Directive in 1992**

Partial exemption in Excise Duties

Led to over-production

Tax Exemption restricted to certain eligible amounts of volumes in 2002 (limits being revised every year).

- **Has set more ambitious Goals**
 - 5.75% by 2008
 - 7% by 2010
 - 10% by 2015

- **Finance Law, 2005**

ECOTAX called TGAP (General Tax on Polluting Activities)

Distributors are liable to a payment of 1.2% tax on the value of Product.

The Case of European Union

Italy

- **Tax Law 2005 [Article 21(6) of single text on excise duties]**
- ✓ **Exemption from Excise Duty for an annual quota of 200,000 tones of biodiesel from 1 Jan, 2005 to 31 Dec, 2010**
- ✓ **Ministry of Economic Affairs and Finance looks at over compensation, if any.**

The Case of United States of America

- **Very Encouraging Biofuels Policy Measures**
- **Benefits to US**
- ✓ **Creation of 39,000 new jobs by 2015**
- ✓ **Higher income levels (an additional \$ 627 million in the pockets of Americans per year)**
- ✓ **Tax revenue significantly higher than Incentives given away (Tax Incentive program estimated to cost about \$ 5 million by 2015 while it would generate \$ 8.3 billion for Fed treasury leaving a positive balance of \$ 4.8 million)**

The Case of United States of America

Federal Level Incentives

Energy Policy Act, 2005

- ✓ Credits worth 0.01 per % point of agri-biodiesel and 0.0050 per % point of biodiesel from other sources (For pure biodiesel, this amounts to \$ 1 per gallon for agri-biodiesel and \$ 0.50 per gallon for biodiesel from other sources)
- ✓ B20 and above qualify for a tax credit equal to 30% of refueling property up to \$ 30,000 for business property and \$ 1,000 for residential property.
- ✓ Small agri-biodiesel producer tax credit of \$ 0.10 per gallon up to a quantity of 15 million gallons.

The Case of United States of America

State Level Incentives

■ Vary widely from state to state, in terms of :

- ✓ Rates of credit
- ✓ Type of incentive
- ✓ Duration of incentives
- ✓ Qualifying criteria for incentives

■ Broadly can be categorized into 4 categories :

- ✓ Biodiesel Tax Refund
- ✓ Biodiesel Income Tax Credit
- ✓ Biofuels Tax Exemption
- ✓ Alternative Fuel Grants

The Case of United States of America

Biodiesel Tax Refund

Arkansas:

Refund of \$0.50 per gallon of biodiesel used for not more than 0.2% of blend with fossil diesel

South Dakota:

Refund is available for contractors' excise taxes, and, sales or use taxes such that the project cost is not more than \$4.5 million.

Biodiesel Income Tax Credit

Idaho:

6% credit for all eligible refueling infrastructures for a period between 1 January, 2007 and 31 December, 2011

Maryland :

Biodiesel production credits available at rate of \$0.20 per gallon for biodiesel produced from soybean oil and \$0.05 per gallon for biodiesel produced from other feedstocks.

The Case of United States of America

Biofuels Tax Exemption

Florida:

Exempts taxes from sale or use of materials used in distribution of biodiesel (B10-B100), including refueling infrastructure, transportation, and storage

Illinois:

Only 80% of the proceeds from sales of biodiesel-blended fuels (1- 10% mixtures) being taxed.

Alternative Fuel Grants

Delaware:

Grants equal to 25% of the cost of a project demonstrating the substantial market potential may be approved with restriction that no one project can receive grants more than \$300,000

Tennessee:

Grant funding will be provided for 50% of total project costs, but not more than \$12,000 may be awarded per individual grant

Brazil

- ✓ **Biodiesel Program** launched in December 2004
- ✓ **Aims** : 2% blending of biodiesel to diesel oil currently 5% level by 2013
- ✓ **To qualify for tax breaks one must purchase 10% to 50% of raw materials from small growers depending on region profile.**

Taxes Charged

- 1. CIDE:** Full exemption to biodiesel(used for maintenance of transport system)
- 2. PIS/COFINS:** 32% to 100% exemption depending on the location and income levels of farmers from whom feedstock is procured.
- 3. IPI:** Full exemption to biodiesel

Australia

■ Fuel Tax Credits

Enacted from 1 July 2011, will reach its final rates by 2015(i.e. starting from a rate of 3.8% in 2011 to 19.1% in 2015)

■ Fuel grants Scheme under the Energy Grants (Credits) Scheme

- ✓ Apply from 1 July 2006 to 30 June 2010
- ✓ Grants rates payable will be reduced to zero in five equal annual steps (i.e. starting from a rate of 14.808% in 2006 to 0% in 2010)

China

- Goal of meeting 15% of energy requirements through biodiesel by 2020
- Plans to develop 800,000 hectares of oil bearing tree nuts (thereby producing 6 million MT of biodiesel)
- Interim Procedures for the Management of the **Special Development fund** for Renewable Energy Resources, May 30, 2006
- Companies can apply to the fund for capital to invest in research, development, demonstration and production

Thailand

- All high-speed diesel production must contain biodiesel B100, two percent by weight, as of April 2, 2008 [Energy Policy Management Committee]
- Committee will provide refund, at a rate determined by it RTG to lower fee paid by B5 manufacturers to Conservation Fund (lowering the cost by 0.70 Baht/liter)
- Plans to expand palm plantation by (0.96 million hectares) by 2012
- Encouragement to Contract Farming
- Retail prices of biodiesel 24.64 baht/litre as on May 21, 2007 compared to 25.34 baht/ litre. This makes biodiesel an attractive choice for consumers.

Indian Scenario

Purchase Policy of MoPNG, 2005

- ✓ Public sector oil marketing companies to purchase B100
- ✓ Comprehensive industry guidelines “**Operation, Quality and Safety Manual on Biodiesel – HSD B100 and HSD B5 max**” for information and guidance of the biodiesel industry
- ✓ Identification of purchase centers with analytical facilities
- ✓ Registration of biodiesel suppliers as authorized ones
- ✓ Initial Price of **Rs 25 per litre**
- ✓ Diesel Standard: **IS: 15607 – 2005** [Bureau of Indian Standards]

Summing Up

- **Manifold policy instruments to be certainly helpful in promoting use and issues of economic welfare**
- **Biofuels to be seen as an essential and strategic component of secure and diversified energy policy**

Thank You
