The Volumetric Ethanol Excise Tax Credit: History and Current Policy

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The Volumetric Ethanol Excise Tax Credit (VEETC) is the largest subsidy to corn ethanol, the most common biofuel in the U.S. The tax credit is worth 45 cents per gallon of ethanol blended with gasoline, costing U.S. taxpayers $5.16 billion in 2009.[i] Congress began subsidizing ethanol during a fuel shortage in the late 1970s by exempting gasoline blended with ethanol from gasoline excise taxes and establishing a tax credit for ethanol use. In 2004, the American Jobs Creation Act implemented the VEETC to replace these two historical subsidies as a combined excise tax exemption and tax credit.

This subsidy does not go to corn farmers or ethanol refiners, but to fuel blenders. Blenders, often large oil and gas companies such as Shell Oil,[vii] count the tax credit against income tax payments to the U.S. Treasury, costing U.S. taxpayers $21.56 billion in forgone tax revenues since 2006 (see table). While the VEETC was set to expire at the end of 2010, Congress extended it for another year in December, costing taxpayers another $4.9 billion.[viii]

Year	Escalating Cost of VEETC to Taxpayers
2006	$2,570,000,000[ii]
2007	$3,320,000,000[iii]
2008	$4,410,000,000[iv]
2009	$5,160,000,000[v]
2010	$6,100,000,000[vi]
Total cost of VEETC since 2006	**$21,560,000,000**

Ethanol and the VEETC

Ethanol has never been economical to turn into a commercial product, and ethanol subsidies have significant economic, agricultural and environmental implications. Because subsidies to ethanol blenders create demand for corn from farmers, the Congressional Budget Office (CBO) estimates that subsidies are responsible for a 28-47% rise in the price of corn.[ix] Since corn is a main ingredient in livestock feed and many consumer food products, ethanol subsidies raise the price of food to consumers.[x] The inflated value of corn also encourages large-scale agriculture that may not be environmentally sustainable.[xi] In addition, ethanol refineries use large amounts of fossil fuels to distill ethanol and turn it into a usable product, making ethanol's ability to reduce greenhouse gas emissions questionable.[xii]

If the VEETC is renewed for another five years, it could cost taxpayers more than $31,000,000,000.

Despite its significant financial and environmental drawbacks, the government has mandated the purchase of more corn ethanol. Under the recently enacted Renewable Fuels Standard (RFS), the U.S. is required to blend 36 billion gallons of biofuels with gasoline by 2022, up to 15 billion gallons of which can come from conventional corn ethanol.[xiii]

VEETC Does Not Encourage Ethanol Production

Because of the impacts of the Renewable Fuels Standard, various government agencies agree that the VEETC is no longer needed to encourage ethanol production. The Congressional Research Service (CRS) has indicated that the RFS will increase demand for ethanol.[xiv] Accordingly, the Government Accountability Office (GAO) concludes that since the RFS guarantees a market for corn ethanol, taxpayers no longer need to support ethanol through the VEETC.[xv]

Based on current ethanol production levels, GAO projects that the VEETC does not stimulate ethanol production beyond the government mandate. The CBO supports this conclusion, finding that the RFS mandate determines production levels and so the VEETC no longer increases production.[xvi] As a result, removing the VEETC would not lower demand for corn ethanol, the income of corn growers or the income of ethanol refiners—the main party affected would be large oil companies that blend ethanol with gasoline.[xvii] Furthermore, GAO concludes that subsidies cannot be legitimized to establish or expand the ethanol industry, which has already invested in production facilities and is capable of meeting RFS requirements. GAO notes that many economists now agree that the VEETC should be phased out or eliminated altogether.[xviii]

It's Time to Let VEETC Expire

The VEETC subsidizes large oil and gas companies who blend ethanol with gasoline. Ethanol producers and blenders already benefit from government mandates and small producer credits; the VEETC only adds to the layers of subsidies for corn ethanol. If the VEETC is not phased out or eliminated, the GAO estimates it will cost taxpayers $6.75 billion a year by 2015, when the RFS mandates that up to 15 billion gallons of corn ethanol be blended with U.S. gasoline. Congress should stop the bottomless pit of subsidies for the ethanol industry and immediately end the VEETC and save taxpayers billions.

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For more information, visit www.taxpayer.net or contact Autumn Hanna, autumn@taxpayer.net

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[iv] The Office of Management and Budget. "Analytic Perspectives: Budget of the United States Government, Fiscal Year 2010." 2009. http://www.whitehouse.gov/sites/default/files/omb/budget/fy2010/assets/spec.pdf
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[xv] Government Accountability Office. "Potential Effects and Challenges of Required Increases in Production and Use." August 2009. http://www.gao.gov/new.items/d09446.pdf
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[xvii] Government Accountability Office. "Potential Effects and Challenges of Required Increases in Production and Use." August 2009. http://www.gao.gov/new.items/d09446.pdf
[xviii] Ibid.