



The Volumetric Ethanol Excise Tax Credit: Why It Wastes Money

Over the last several years, subsidies and mandates have led to a massive expansion of corn ethanol production in the US. The result has been increased deforestation and land use change around the world, unstable grain prices resulting in increases in food costs, and windfall profits to oil companies and the ethanol industry at the expense of the American taxpayer.

For over thirty years, the corn ethanol industry has been heavily subsidized through tax credits and is now further supported through the Renewable Fuel Standard's guaranteed market (which mandates the consumption of 36 billion gallons of biofuels annually by 2022). The largest of the tax credits is the Volumetric Ethanol Excise Tax Credit (VEETC), which gives a tax credit of \$0.45 per gallon to oil companies that blend ethanol into their fuel. There are many reasons why the VEETC wastes money:

- VEETC is duplicative and unnecessary due to the creation of the Renewable Fuels Standard (RFS), which is now the main driver of ethanol consumption in the US. If the tax credit were to be repealed it would have little impact on actual ethanol consumption or production, and therefore does not help reduce US dependence on foreign oil.
- VEETC goes primarily to the oil industry for blending ethanol into gasoline and not a penny goes directly to helping farmers, as supported by analysis by the Government Accountability Office (GAO). Additionally, the oil industry is already heavily subsidized through many other provisions in the tax code.
- VEETC costs taxpayers billions of dollars every year. This year, the VEETC tax credit will cost \$5.4 billion, and if current policies are not reformed, the VEETC will cost more than \$31 billion over the next five years (2011 to 2015). The corn ethanol industry has received taxpayer subsidies for more than 30 years. Currently, corn ethanol receives three quarters of the federal subsidies going to renewable energy for electricity or fuel despite the potential of wind and solar to more effectively reduce greenhouse gas emissions and other forms of pollution.
- In addition to benefiting oil companies, the VEETC subsidizes a fuel that causes a laundry list of other problems including:
 - Increased grain prices which lead to higher food and feed prices;
 - Increased demand for corn which drives farmers to bring new land into production, leading to cleared forests and increased greenhouse gas emissions; and
 - Increased farming inputs such as nitrogen fertilizer and toxic pesticides and herbicides which can pollute waterways, impairing water quality.
- Jobs claims associated with ethanol and VEETC are dubious. Independent economic analyses have found that ethanol industry claims regarding jobs created by ethanol production are 5-10 times too high and that taxpayers pay \$140,000-\$450,000 per job per year. There are better ways to create jobs with VEETC's billions that avoid ethanol's negative side effects.

It is time for Congress to end the VEETC. In this time of fiscal uncertainty, we simply cannot afford to offer billions in subsidies to the oil and gas industry for ethanol – a fuel that by law they already have to use.