

Proponent Testimony in Support of HB2012: Providing an income tax credit for the sale and distribution of ethanol blends for motor vehicle fuels.

House Taxation Committee, January 27, 2025

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Good afternoon, Chairman Smith and members of the committee, my name is Josh Roe, and I am with the Kansas Corn Growers Association (KCGA). KCGA represents more than 1,000 members on state and national legislative and regulatory issues and actively works with other organizations to maximize the voice of Kansas corn producers. KCGA stands in support of this bill to provide a tax credit on sales and distribution of higher blends of ethanol.

While a vast majority of all gasoline sold today contains at least 10 percent ethanol, Kansas corn is actively working to increase the availability of E15 and higher ethanol blends. These higher blends of ethanol benefit the Kansas consumer, agricultural producers, and the environment.

Since 2016, fuel containing 15 percent ethanol and 85 percent unleaded gasoline, commonly known as E15, has been approved for use in all vehicles model year 2001 and newer (more than 96 percent of the cars on the road today), while higher blends are approved for flex-fuel vehicles. Ethanol is used as a cost-effective, non-toxic additive that increases the octane levels of gasoline.

Ethanol blended fuels save consumers money across the board. Regular unleaded, which is E10, sells for 49 cents per gallon less than the pricey no-ethanol premium choice. E15 sells for about 15 cents per gallon less than regular E10 fuel. If you have a flex fuel vehicle, you can buy E85 (85% ethanol) fuel for about a dollar a gallon less than regular E10 fuel.

Modern vehicles have higher compression engines, especially compared to their predecessors prior to 2000. The higher compression allows them to efficiently operate on the higher-octane content of ethanol, which means that burning ethanol allows for greater performance of the vehicle, with a negligible drop in fuel economy. So, not only do consumers benefit from a decrease in the price at the gas pump, but they also benefit from a higher performing vehicle with comparable fuel efficiency.

Expansion of ethanol demand is vital to the future of rural Kansas. In the past five years, an average of 33 percent of corn production in Kansas is used in ethanol production, approximately the same amount of corn that goes directly to livestock.

Technology and improved farming practices are allowing our growers to sustainably produce more corn on fewer acres. We see expanded ethanol demand as the most effective short- and long-term solution to increase corn demand, which in turn increases income of agricultural producers and enhances the Kansas economy.

Kansas consumers purchase just under 1.1 billion gallons of gasoline per year, so just a 1% increase in the blend percent of ethanol leads to 16 million additional gallons of ethanol, or 5.7 million bushels of corn or grain sorghum. While it's not possible to accurately estimate how that could impact corn prices across the state,



additional demand for our Kansas grown commodities is vital to farmer prosperity, especially in this time of depressed prices and agricultural incomes.

Kansas is blessed with highly efficient, modern ethanol biorefineries located in rural communities across the state. During the production of ethanol, the starchy portion of the corn kernel is converted to alcohol, leaving a solid protein behind. This solid protein coproduct, known as distiller's grains, is a highly sought-after feed for livestock. Thus, the production of ethanol not only increases demand for corn but provides a cost-effective feed source for our livestock producers. The expansion of ethanol has enabled us to produce **food and fuel** from our crops.

Ethanol also plays a crucial role in reducing emissions and enhancing the sustainability of our fuel supply. Independent research from the United States Department of Agriculture, Harvard University, and Tufts University has shown that using ethanol will reduce greenhouse gas emissions by 46 percent compared ethanol-free gasoline. When our partners in the petroleum industry blend ethanol at higher levels, they can reduce the aromatic content of gasoline as the source of octane. Aromatics are among the most expensive ingredients in a gallon of gasoline that produce the most greenhouse gases. Ethanol is by far the most studied gasoline additive and has shown to be cost-effective while being good for the environment.

The benefits of higher-level blends of ethanol are evident in the recent actions of both the incoming Trump Administration and our partners in the petroleum and fuel retail industries. Last week, President Trump signed an Executive Order "Declaring a National Energy Emergency". This Executive Order specifically highlights the use of E15 in meeting national energy independence goals. Additionally, leading petroleum trade associations and companies such as Valero and CHS Refining have partnered with corn organizations like Kansas Corn and continue to work hand in hand with the ethanol and agricultural industries for increased E15 access.

Passage of this bill will lead to direct benefits for the struggling farm economy in terms of increased incomes, and the benefits to consumers of lower fuel prices will far outweigh the associated fiscal note. As such, we believe legislation such as HB2012 that will further encourage the adoption of higher-level blends of ethanol will provide economic and environmental benefits to the state of Kansas. Thank you once again for allowing me to provide this testimony on behalf of our members, and I am happy to stand for questions at the appropriate time.

Sources:

For further references on ethanol's environmental benefits, see this Government study from 2019 that evaluates the carbon footprint of ethanol, via a full lifecycle analysis that takes corn production into account:
<https://www.usda.gov/media/press-releases/2019/04/02/usda-study-shows-significant-greenhouse-gas-benefits-ethanol>



5-5-5 Ethanol Tax Credit Program

The purpose of the Kansas 5-5-5 Ethanol Tax Credit Program is to stimulate the agricultural economy while decreasing the price of fuel at the pump for consumers.



A Kansas income tax credit of 5 cents per gallon to retailers selling higher blends of ethanol.



The total amount of tax credits issued will be capped at \$5 million annually.



The 5-5-5 ethanol income tax credit is set to sunset after 5 years.

Kansas Consumers Save With Ethanol

Higher ethanol blends historically sell at significant discounts from E10 fuel, which is the standard fuel across the country.

E15: 16 cents/gallon less than E10

E85: \$1.02/gallon less than E10

Corn Farmers Benefit from Additional Ethanol

Tens of millions of additional bushels of corn and sorghum are converted into ethanol because of these programs. Using average prices from each year, that's hundreds of millions of dollars additional value for farmers through higher demand and higher farmgate prices. This in turn contributes hundreds of millions of dollars to the economy at large.

Savings and Benefits Have Bigger Economic Impacts for Kansas

Consumers savings on fuel have contributed tens of millions of dollars to the economy that wouldn't be realized without higher ethanol blends.

The 5-5-5 Biofuel Tax Credit Will Continue These Impacts

If retailers utilize the \$5 million to its full extent, the resulting economic ripples could not only surpass the direct costs of the incentive but could also deliver invaluable contributions to the economy, far exceeding the initial investment.

5-5-5 Ethanol Tax Credit Program

Our proposal would create a non-refundable Kansas income tax credit for motor fuel retailers that sell higher ethanol blended fuels (between 15 and 85 percent ethanol), and for distributors that sell higher ethanol blend fuel directly to a final user in the state. The proposal provides an income tax credit in the amount of \$0.05 per gallon of higher ethanol blend sold. The tax credit would be capped at \$5 million per tax year and would sunset after five years. During the 2025 session, the proposal was introduced as House Bill 2012 and received a hearing in the House Committee on Taxation. This proposal offers Kansas consumers the opportunity to save money at the pump, and it invests in Kansas agriculture and rural economies.

Purpose. While E15 fuel is available at more than 3,700 retail locations in 33 states, just over 150 retail locations in Kansas currently offer E15 and higher blends. This proposal is intended to incentivize more fuel retailers to offer E15 and higher blends of ethanol fuel. Similar legislation has been successfully passed in several nearby states, including Missouri, Nebraska, Iowa, South Dakota, and Illinois.

Benefits. The proposal would provide Kansas consumers greater access to more affordable and cleaner fuels such as E15 and higher ethanol blended fuels. Last year, E15 fuel saved 16 cents per gallon in Kansas and more than 25 cents at the pump nationwide compared to E10 fuel, so expanding access to E15 saves Kansas consumers money every time they fill up.

Investment in the Kansas Economy. Because approximately one-third of the corn and sorghum grown in Kansas is used to produce ethanol fuel, the biofuels industry serves as a strong price support for that important crop and helps stabilize the Kansas economy. Increased consumption of higher blend ethanol will increase demand for corn and put more money back into rural Kansas economies. In addition, the industry annually pays millions of dollars in property taxes, and each Kansas ethanol plant employs around 50 workers at average wages of more than \$60,000.

Safe for Use. Approved for use by the EPA nearly 25 years ago in 2001, E15 fuel can be safely used in more than 96 percent of the cars, pickup trucks, and SUVs on the road today. In fact, to date, U.S. consumers have driven more than 140 billion miles on E15 as of 2024.

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