

105TH CONGRESS  
1ST SESSION

# H. R. 587

To amend the Internal Revenue Code of 1986 to eliminate tax subsidies  
for ethanol fuel.

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IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 5, 1997

Mr. BENTSEN introduced the following bill; which was referred to the  
Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to eliminate  
tax subsidies for ethanol fuel.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. ELIMINATION OF TAX SUBSIDIES FOR ETHA-**  
4       **NOL FUEL.**

5       (a) ELIMINATION OF CREDIT FOR ALCOHOL USED  
6       AS FUEL.—

7               (1) IN GENERAL.—Subpart D of part IV of  
8       subchapter A of chapter 1 of the Internal Revenue  
9       Code of 1986 is amended by striking section 40 (re-  
10      lating to alcohol used as fuel).

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(2) CLERICAL AND CONFORMING AMENDMENTS.—

(A) Subsection (b) of section 38 of such Code (relating to general business credit) is amended by striking paragraph (3) and by redesignating paragraphs (4) through (12) as paragraphs (3) through (11), respectively.

(B) Paragraph (3) of section 38(d) of such Code (relating to credits no longer listed) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B)(ii) and inserting “, and”, and by adding at the end the following new subparagraph:

“(C) the credit allowable by section 40, as in effect on the day before the date of the enactment of this subparagraph (relating to alcohol used as fuel) shall be treated as referred to after the last paragraph of subsection (b) and after any credits treated as referred to by reason of subparagraph (A).”

(C) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by striking the item relating to section 40.

1 (D)(i) Part II of subchapter B of chapter  
 2 1 of such Code is amended by striking section  
 3 87 (relating to alcohol fuel credit).

4 (ii) The table of sections for part II of sub-  
 5 chapter B of chapter 1 of such Code is amend-  
 6 ed by striking the item relating to section 87.

7 (iii) Subsection (a) of section 56 of such  
 8 Code (relating to adjustments in computing al-  
 9 ternative minimum taxable income) is amended  
 10 by striking paragraph (8) (relating to section  
 11 87 not applicable).

12 (E) Subsection (c) of section 196 of such  
 13 Code (relating to qualified business credits) is  
 14 amended by striking paragraph (3) and redesign-  
 15 ating paragraphs (4) through (7) as para-  
 16 graphs (3) through (6), respectively.

17 (F) Section 6501(m) of such Code (relat-  
 18 ing to deficiencies attributable to election of  
 19 certain credits) is amended by striking “40(f),”.

20 (b) REDUCTIONS OF OTHER INCENTIVES FOR ETHA-  
 21 NOL FUEL.—

22 (1) REPEAL OF REDUCED RATE ON ETHANOL  
 23 FUEL NOT PRODUCED FROM PETROLEUM OR NATU-  
 24 RAL GAS.—Subsection (b) of section 4041 of such  
 25 Code is amended to read as follows:

1       “(b) EXEMPTION FOR OFF-HIGHWAY BUSINESS  
2 USE.—

3               “(1) IN GENERAL.—No tax shall be imposed by  
4 subsection (a) or (d)(1) on liquids sold for use or  
5 used in an off-highway business use.

6               “(2) TAX WHERE OTHER USE.—If a liquid on  
7 which no tax was imposed by reason of paragraph  
8 (1) is used otherwise than in an off-highway busi-  
9 ness use, a tax shall be imposed by paragraph  
10 (1)(B), (2)(B), or (3)(A)(ii) of subsection (a)  
11 (whichever is appropriate) and by the corresponding  
12 provision of subsection (d)(1) (if any).

13               “(3) OFF-HIGHWAY BUSINESS USE DEFINED.—  
14 For purposes of this subsection, the term ‘off-high-  
15 way business use’ has the meaning given to such  
16 term by section 6421(e)(2); except that such term  
17 shall not, for purposes of subsection (a)(1), include  
18 use in a diesel-powered train.”

19               (2) REPEAL OF REDUCED RATE ON ETHANOL  
20 FUEL PRODUCED FROM NATURAL GAS.—Subsection  
21 (m) of section 4041 of such Code is amended—

22                       (A) by striking “or ethanol” each place it  
23 appears (including the heading of paragraph  
24 (2)),

1 (B) in paragraph (2), by striking “, etha-  
2 nol,” and

3 (C) in paragraph (2), by inserting “(other  
4 than ethanol)” after “alcohol”.

5 (c) TAX OF FUEL ALCOHOL TO SAME EXTENT AS  
6 OTHER MOTOR FUELS.—

7 (1) TREATMENT AS TAXABLE FUEL.—Para-  
8 graph (1) of section 4083(a) of such Code (defining  
9 taxable fuel) is amended by striking “and” at the  
10 end of subparagraph (A), by striking the period at  
11 the end of subparagraph (B) and inserting “, and”,  
12 and by adding at the end the following:

13 “(C) fuel alcohol.”

14 (2) DEFINITION OF FUEL ALCOHOL.—Sub-  
15 section (a) of section 4083 of such Code is amended  
16 by adding at the end the following new paragraph:

17 “(4) FUEL ALCOHOL.—The term ‘fuel alcohol’  
18 means any alcohol (including ethanol and meth-  
19 anol)—

20 “(A) which is produced other than from  
21 petroleum, natural gas, or coal (including peat),  
22 and

23 “(B) which is withdrawn from the distillery  
24 where produced free of tax under chapter 51 by

1           reason of section 5181 or so much of section  
2           5214(a)(1) as relates to fuel use.”

3           (3) RATE OF TAX.—Clause (i) of section  
4           4081(a)(2)(A) of such Code is amended by inserting  
5           “or fuel alcohol” after “gasoline”.

6           (4) SPECIAL RULES FOR IMPOSITION OF TAX.—  
7           Paragraph (1) of section 4081(a) of such Code is  
8           amended by adding at the end the following new  
9           subparagraph:

10                   “(C) SPECIAL RULES FOR FUEL ALCO-  
11                   HOL.—In the case of fuel alcohol—

12                           “(i) the distillery where produced shall  
13                           be treated as a refinery, and

14                           “(ii) subparagraph (B) shall be ap-  
15                           plied by including transfers by truck or rail  
16                           in excess of such minimum quantities as  
17                           the Secretary shall prescribe.”

18           (5) REPEAL OF REDUCED RATES ON ALCOHOL  
19           FUELS.—

20                   (A) Section 4041 of such Code is amended  
21                   by striking subsection (k).

22                   (B) Section 4081 of such Code is amended  
23                   by striking subsection (c).

24                   (C) Section 4091 of such Code is amended  
25                   by striking subsection (c).

1 (6) CONFORMING AMENDMENTS.—

2 (A) Paragraph (2) of section 4041(a) of  
3 such Code is amended by adding at the end the  
4 following: “No tax shall be imposed by this  
5 paragraph on the sale or use of any liquid if tax  
6 was imposed on such liquid under section 4081  
7 and the tax thereon was not credited or re-  
8 funded.”

9 (B) Section 6427 of such Code is amended  
10 by striking subsection (f).

11 (C) Subsection (i) of section 6427 of such  
12 Code is amended by striking paragraph (3).

13 (D) Paragraph (2) of section 6427(k) of  
14 such Code is amended by striking “(3)”.

15 (E)(i) Paragraph (1) of section 6427(l) of  
16 such Code is amended by striking “or” at the  
17 end of subparagraph (A), by redesignating sub-  
18 paragraph (B) as subparagraph (C), and by in-  
19 serting after subparagraph (A) the following  
20 new subparagraph:

21 “(B) any fuel alcohol (as defined in section  
22 4083) on which tax has been imposed by sec-  
23 tion 4081, or”.

24 (ii) Paragraph (2) of section 6427(l) of  
25 such Code is amended by striking “and” at the

1 end of subparagraph (A), by redesignating sub-  
2 paragraph (B) as subparagraph (C), and by in-  
3 serting after subparagraph (A) the following  
4 new subparagraph:

5 “(B) in the case of fuel alcohol (as so de-  
6 fined), any use which is exempt from the tax  
7 imposed by section 4041(a)(2) other than by  
8 reason of a prior imposition of tax, and”.

9 (iii) The heading of subsection (l) of sec-  
10 tion 6427 of such Code is amended by inserting  
11 “, FUEL ALCOHOL,” after “DIESEL FUEL”.

12 (F) Sections 9503(b)(1)(E) and  
13 9508(b)(2) of such Code are each amended by  
14 striking “and diesel fuel” and inserting “diesel  
15 fuel, and fuel alcohol”.

16 (G) Subsection (e) of section 9502 of such  
17 Code is amended by striking paragraph (2).

18 (H) Subsection (f) of section 9502 of such  
19 Code is amended by striking paragraph (2) and  
20 by redesignating paragraph (3) as paragraph  
21 (2).

22 (I) Subsection (b) of section 9503 of such  
23 Code is amended by striking paragraph (5).

24 (J) Paragraph (3) of section 9503(f) of  
25 such Code is amended to read as follows:



1           “(3) PARTIALLY EXEMPT METHANOL OR ETHA-  
2           NOL FUEL.—In the case of a rate of tax determined  
3           under section 4041(m), the Highway Trust Fund fi-  
4           nancing rate is the excess (if any) of the rate so de-  
5           termined over—

6                   “(A) 5.55 cents per gallon after September  
7                   30, 1993, and before October 1, 1995, and

8                   “(B) 4.3 cents per gallon after September  
9                   30, 1995.”

10          (d) EFFECTIVE DATES.—

11               (1) GENERAL RULE.—Except as provided in  
12               paragraph (2), the amendments made by this section  
13               shall take effect on the date of the enactment of this  
14               Act.

15               (2) ELIMINATION OF SECTION 40 CREDIT.—The  
16               amendments made by subsection (a) shall apply to  
17               alcohol produced after the date of the enactment of  
18               this Act.

19          (e) FLOOR STOCK TAXES.—

20               (1) IMPOSITION OF TAX.—In the case of fuel al-  
21               cohol which is held on the date of the enactment of  
22               this Act by any person, there is hereby imposed a  
23               floor stocks tax of 18.4 cents per gallon.

24               (2) LIABILITY FOR TAX AND METHOD OF PAY-  
25               MENT.—

1 (A) LIABILITY FOR TAX.—A person hold-  
2 ing fuel alcohol on the date of the enactment of  
3 this Act to which the tax imposed by paragraph  
4 (1) applies shall be liable for such tax.

5 (B) METHOD OF PAYMENT.—The tax im-  
6 posed by paragraph (1) shall be paid in such  
7 manner as the Secretary shall prescribe.

8 (C) TIME FOR PAYMENT.—The tax im-  
9 posed by paragraph (1) shall be paid on or be-  
10 fore the date which is 6 months after the date  
11 of the enactment of this Act.

12 (3) DEFINITIONS.—For purposes of this sub-  
13 section—

14 (A) FUEL ALCOHOL.—The term “fuel alco-  
15 hol” has the meaning given such term by sec-  
16 tion 4083 of the Internal Revenue Code of  
17 1986, as amended by this section.

18 (B) HELD BY A PERSON.—Fuel alcohol  
19 shall be considered as “held by a person” if  
20 title thereto has passed to such person (whether  
21 or not delivery to the person has been made).

22 (C) SECRETARY.—The term “Secretary”  
23 means the Secretary of the Treasury or his del-  
24 egate.

1           (4) EXCEPTION FOR EXEMPT USES.—The tax  
2       imposed by paragraph (1) shall not apply to fuel al-  
3       cohol held by any person exclusively for any use to  
4       the extent a credit or refund of the tax imposed by  
5       section 4081 of the Internal Revenue Code of 1986  
6       is allowable for such use.

7           (5) EXCEPTION FOR FUEL HELD IN VEHICLE  
8       TANK.—No tax shall be imposed by paragraph (1)  
9       on fuel alcohol held in the tank of a motor vehicle  
10      or motorboat.

11          (6) EXCEPTION FOR CERTAIN AMOUNTS OF  
12      FUEL.—

13           (A) IN GENERAL.—No tax shall be im-  
14      posed by paragraph (1) on fuel alcohol held on  
15      the date of the enactment of this Act by any  
16      person if the aggregate amount of fuel alcohol  
17      held by such person on such date does not ex-  
18      ceed 2,000 gallons. The preceding sentence  
19      shall apply only if such person submits to the  
20      Secretary (at the time and in the manner re-  
21      quired by the Secretary) such information as  
22      the Secretary shall require for purposes of this  
23      paragraph.

1 (B) EXEMPT FUEL.—For purposes of sub-  
 2 paragraph (A), there shall not be taken into ac-  
 3 count fuel held by any person which is exempt  
 4 from the tax imposed by paragraph (1) by rea-  
 5 son of paragraph (4) or (5).

6 (C) CONTROLLED GROUPS.—For purposes  
 7 of this paragraph—

8 (i) CORPORATIONS.—

9 (I) IN GENERAL.—All persons  
 10 treated as a controlled group of cor-  
 11 porations shall be treated as 1 person.

12 (II) CONTROLLED GROUP OF  
 13 CORPORATIONS.—The term “con-  
 14 trolled group of corporations” has the  
 15 meaning given to such term by sub-  
 16 section (a) of section 1563 of such  
 17 Code; except that for such purposes  
 18 the phrase “more than 50 percent”  
 19 shall be substituted for the phrase “at  
 20 least 80 percent” each place it ap-  
 21 pears in such subsection.

22 (ii) NONINCORPORATED PERSONS  
 23 UNDER COMMON CONTROL.—Under regula-  
 24 tions prescribed by the Secretary, prin-  
 25 ciples similar to the principles of clause (i)

1           shall apply to a group of persons under  
2           common control where 1 or more of such  
3           persons is not a corporation.

4           (7) OTHER LAWS APPLICABLE.—All provisions  
5           of law, including penalties, applicable with respect to  
6           the taxes imposed by section 4081 of such Code  
7           shall, insofar as applicable and not inconsistent with  
8           the provisions of this subsection, apply with respect  
9           to the floor stock taxes imposed by paragraph (1) to  
10          the same extent as if such taxes were imposed by  
11          such section 4081.

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