Section 45Z Clean Fuel Production Credit: Arkansas Soybean Association Comments on Internal Revenue Service Proposed Regulations

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The Arkansas Soybean Association ("ASA") submitted April 6th comments on the proposed regulations the United States Department of Treasury and Internal Revenue Service (collectively, "IRS") published in February regarding the Clean Fuel Production Tax Credit ("PTC") under Section 45Z of the Internal Revenue Code.

The proposed regulations can be relied upon until they are finalized if the taxpayer is guided by them in their entirety and in a consistent manner.

The proposed rules address how to determine clean fuel production credits including:

- Credit eligibility rules.
- Emission rates.
- Certification requirements.
- Registration requirements.
- Elective payment and credit transferability.

The Section 45Z PTC was enacted as part of the Inflation Reduction Act of 2022. The PTC replaced the previous renewable fuel incentives. The objective is to incentivize domestic production of lower carbon alternatives to petroleum-based fuels.

The One Big Beautiful Bill enacted in 2025 extended and modified the credit. It is based on the quantity of clean fuel produced and sold by a domestic producer. The domestic producer must chemically process feedstocks into finished fuel during the time period of January 1, 2025, to December 31, 2027.

The ASA's comments note that soybean oil accounts for approximately over one-third of all feedstocks used in domestic biodiesel and renewable diesel production.

Additional comments by the ASA include:

- Biofuels provide U.S. soybean farmers with a significant domestic value-added market for their crop.
- Federal tax credit certainty for biofuels will help revitalize domestic biofuel production.
- Market access and value-added opportunities for domestic feedstock providers could be bolstered.
- The absence of § 45Z guidance is problematic for soybean oil traders and biofuel producers because of a lack of clarity on how these credits will interact with their businesses.
- The lack of clarity affects the markets that soybean producers depend on.

- Amendments to § 45Z enacted through the One Big Beautiful Bill Act ensure that the tax credit will prioritize North American-sourced feedstocks and improve credit values for agricultural feedstocks.
- Increased utilization of biomass-based diesel over the past several years has had a marked positive impact on the rural economy.

The components of the ASA's comments include:

- Removal of Indirect Land Use Change Penalties (noting removal of agriculture indirect land use change penalties effectively doubles the § 45Z tax credit for soy-based biomass-based diesel).
- Feedstock Eligibility Limitations (the feedstocks "ring fence" limits eligibility to feedstocks grown or sourced in the U.S., Mexico, and Canada eliminating the incentive for biofuel producers to import questionable feedstocks that lacked proper federal oversight or testing mechanisms).
- United States Department of Agriculture Carbon Intensity Calculator for Farming Practices (urges the United States Treasure to continue coordination with the United States Department of Agriculture and Department of Energy to provide guidance for value-added farming practices included in the 45Z tax credit through the USDA Feedstock Carbon Intensity Calculator).

A copy of the ASA comments can be found here.