



ARKANSAS SOYBEAN ASSOCIATION

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Department of the Treasury
Internal Revenue Service
Room 5503
P.O.Box 7604
Ben Franklin Station
Washington, D.C. 20044

Via electronic submission

Re: Internal Revenue Service request for comments on Section 45Z Clean Fuel Production Credit proposed rule (REG-121244-23)

Dear Secretary Bessent:

The Arkansas Soybean Association appreciates the opportunity to comment on the Department of the Treasury and Internal Revenue Service proposed rule for the Section 45Z Clean Fuel Production Credit.

Soybean oil accounts for approximately over one-third of all feedstocks used in domestic biodiesel and renewable diesel production. 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 and could bolster market access and value-added opportunities for domestic feedstock providers. However, without final § 45Z guidance, soybean oil traders and biofuel producers have grappled with a lack of clarity on how these credits will interact with their businesses. This lack of clarity affects the markets that soybean producers depend on.

Biofuel tax credits are a critical component of the suite of national and state-level biofuel credits that drive market demand and expansion of the domestic biofuel value chain. The amendments to § 45Z enacted through the One Big Beautiful Bill Act (P.L. 119-21) ensure that the tax credit will prioritize North American-sourced feedstocks and improve credit values for agricultural feedstocks.

Increased utilization of biomass-based diesel (BBD) over the past several years has had a marked impact on the rural economy. Domestic markets consumed over 5.3 billion gallons of BBD in 2024, and the biofuel value chain had a profound, positive impact on rural communities by supporting jobs and contributing to local economies. The BBD industry is poised for additional growth due in large part to the Environmental Protection Agency (EPA) publication of final 2026-2027 Renewable Volume Obligations and the imminent finalization of § 45Z tax guidance.

Removal of Indirect Land Use Change Penalties

The Arkansas Soybean Association commends Congress and the Trump Administration for enacting and signing into law the One Big Beautiful Bill Act (OBBBA), which made meaningful amendments to the § 45Z tax credit. The elimination of indirect land use change (ILUC) penalties on agricultural feedstocks

represents a transformational policy shift for U.S. soybean farmers. ILUC penalties on agricultural products are based on stylized economic modeling rather than empirical evidence of actual, direct land use changes. These penalties artificially elevated the carbon intensity of domestic agricultural BBD feedstocks while creating a perverse incentive to prioritize predominantly imported waste feedstocks.

Prior to the statutory changes to § 45Z made in the OBBBA, ILUC penalties were only assigned to certain feedstocks, like U.S. agriculture, while not calculating similar indirect effects for the imported waste feedstocks that cannibalized U.S. agriculture market share for biofuels. For perspective, prior to removal, 37% of the total emissions calculated for biodiesel produced with U.S. soy and 35% of emissions for renewable diesel produced with U.S. soy came from the ILUC penalty placed on our crops.

Removal of agricultural ILUC penalties effectively doubles the § 45Z tax credit for soy-based BBD. This puts soybeans on par with the tax credits available to biofuels produced from tallow and used cooking oil, removing the disincentive to use soy. Finalizing § 45Z tax guidance to ensure this statutory change is fully realized is imperative to drive domestic demand for U.S. soy.

Feedstock Eligibility Limitations

In addition to removing ILUC penalties on agricultural feedstocks, the OBBBA amendments to § 45Z prohibit both biofuels and biofuels produced using feedstocks outside of North America from utilizing the tax credit. Arkansas Soybean Association appreciates Congress' recognition that § 45Z should prioritize legitimate, traceable feedstocks that support American agricultural and energy security.

While domestic BBD production increased in the past several years, the increase in soybean oil feedstocks was not proportional. BBD production increased from Marketing Year (MY) 2021/22 to MY 2023/24, resulting in a 65% increase in overall feedstock utilization, from approximately 22.5 billion pounds to 37.2 billion pounds. However, over the same three years, the share of virgin vegetable oils (predominantly soybean oil) in domestically produced BBD decreased from 67% to 58%. The shift in BBD feedstocks is also reflected in rising feedstock imports. Used cooking oil (UCO) from China accounted for 7% of the feedstocks used in domestic BBD production in MY 2022/23 and increased to 13% in MY 2023/24, with over half of China's UCO exports destined for the United States. A similar trend occurred with animal fats: while just 10% of Brazilian tallow exports came to the U.S. in MY 2022/23, that figure jumped to 95% the following year.

The new feedstock "ring fence" that limits eligibility to feedstocks grown or sourced in the U.S., Mexico, and Canada eliminate the perverse incentive for biofuel producers to import questionable feedstocks that lacked proper federal oversight or testing mechanisms. To ensure that waste feedstocks from Mexico and Canada are derived from waste streams originating in those countries, Arkansas Soybean Association supports the implementation of cross-border verification mechanisms that do not prove to be overly burdensome to the BBD value chain.

USDA Carbon Intensity Calculator for Farming Practices

The Arkansas Soybean Association encourages the U.S. Department of Agriculture (USDA), U.S. Department of Energy (DOE), and Treasury to work in partnership to promulgate guidance for value-added farming practices included in the 45Z tax credit through the USDA Feedstock Carbon Intensity Calculator (FD-CIC). As it stands, the § 45Z tax credit will support expansion of U.S. biofuel production with incentives to better position domestic feedstocks like soybean oil. However, supplemental tax guidance that utilizes the USDA FD-CIC to quantify additional credit value for farming practices like no-till and reduced tillage, cover crops, and timing of fertilizer

applications creates a unique opportunity for farmers to access a new premium market and receive direct benefits from the § 45Z Clean Fuel Production Credit.

Current statute directs Treasury to provide a stepped-up tax credit for biofuels produced using agricultural feedstocks grown using specific farming practices. While the February draft § 45Z guidance states that supplemental guidance may be forthcoming, farmers are entering yet another planting season with no clarity on whether this domestic value-added market may be available by harvest. Under two presidential administrations, USDA has worked to develop the FD-CIC, soliciting feedback from key stakeholders and beta testing the calculator with farmers who produce BBD feedstocks, including ASA farmer-leaders.

The Arkansas Soybean Association urges Treasury to continue coordination with USDA and DOE to ensure that U.S. soybean farmers can directly benefit from value-added conservation practices employed on their farms. Ensuring swift development of final supplemental guidance will allow farmers to make informed planting decisions ahead of the 2027 growing season.

Conclusion

The Arkansas Soybean Association encourages Treasury and IRS to swiftly finalize § 45Z tax credit guidance to provide the biofuels value chain with the additional clarity needed to inform business decisions and jumpstart production, processing, and domestic soybean demand. U.S. soybean growers have long been supporters in the development of homegrown biofuels that can help diversify the fuel pool and provide domestic alternatives to bolster energy independence. U.S. soybean farmers believe that a vibrant oilseed sector, and the biofuels produced from oilseeds can help usher in a new era of American energy dominance.

Sincerely,

Derek Helms

Derek Helms

Arkansas Soybean Association

President