

EXPANSION OF CLEAN FUEL PRODUCTION SUBSIDY

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TOPLINE: The One Big Beautiful Bill (OB BB) expanded the clean fuel production credit.

BACKGROUND: The Inflation Reduction Act (IRA) enacted the clean fuel production credit, which subsidizes the production of transportation fuels with zero to low greenhouse gas (GHG) emissions for highway vehicles or aircraft through the end of 2027. Fuels that qualify include ethanol, biodiesel, renewable diesel, renewable natural gas, propane, naphtha, hydrogen, and sustainable aviation fuel (SAF). The IRA allowed producers of non-aviation fuels to receive up to \$1.00 per gallon and producers of aviation fuels up to \$1.75 per gallon, but the amount decreases as the fuel's lifecycle greenhouse gas (GHG) emissions increase. Under the IRA, the lifecycle GHG emission calculation factors in not only direct emissions but estimates of indirect emissions related to the conversion of land to cropland to produce biofuel feedstock.

What OB BB Does:

- Extends the clean fuel subsidy to the end of 2029.
- Requires that the fuel's feedstock be sourced in the United States, Mexico, or Canada.
- Excludes emissions related to the conversion of land to cropland to produce biofuel feedstocks like corn from the calculation of lifecycle GHG emissions.

Why It Matters?

- The change in the calculation of GHG emissions will make the credit more readily available for land-intensive biofuels like corn ethanol and soy biodiesel.
- The government does not need to subsidize biofuels like ethanol, which has been a beneficial additive to gasoline since before government intervened in this market. The private sector would, on its own, produce biofuels based on their benefits to American consumers and businesses.
- The subsidy expansion increases the deficit by about \$25 billion over a 10-year period from 2025 to 2034, according to the Joint Committee on Taxation.

Where Can I Find the Changes? OB BB Sec. 70721; 26 U.S.C. § 45Z.

BOTTOMLINE: OB BB's changes extend the clean fuel credit, simplify its calculation, and make it more readily available for ethanol producers. The problem is that this expands a subsidy that distorts transportation fuel markets. Congress should eliminate all federal energy-related subsidies, including the clean fuel production subsidy.

