



Chapter 4

Synfuel and Section 29 Tax Credits

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Synopsis

§ 4.01. Introduction	113
§ 4.02. Background: What Are Section 29 Credits?	114
§ 4.03. The Controversy Surrounding Synfuel Projects	115
§ 4.04. Current IRS Rulings Policy	121
§ 4.05. Transaction Structures	122
§ 4.06. Debate About Operating Levels	125
§ 4.07. Determination Letters and Pre-Filing Agreements	126
§ 4.08. Possible Extension	126

§ 4.01. Introduction.

Owners of synfuel (synthetic fuel) plants won a political battle at the United States Treasury Department in 2001 and are now settling down to see how their projects fare on audit.

Coal companies had complained that the projects do little more than spray petroleum or other chemicals on usable coal and should not warrant a tax subsidy. Most synfuel plant owners have private letter rulings from the Internal Revenue Service (IRS) confirming that they qualify for section 29 tax credits on the output from their plants.¹ The IRS has audits of at least four sets of synfuel plants underway at this writing.

Meanwhile, there is talk in Congress of breathing new life into the section 29 credit, but of tightening the definition of what qualifies as a synfuel for any new synfuel plants that are built in the future.

¹ Unless otherwise indicated, all references to “section” are to sections of the Internal Revenue Code.