Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 235 and 236 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Sam Singh (S.B. 235)
Senator Joseph Bellino, Jr. (S.B. 236)
Committee: Natural Resources and Agriculture

Date Completed: 10-15-25

RATIONALE

Sustainable aviation fuel is an alternative aviation fuel that is made with biomass from crops such as soybeans, corn, and other agricultural waste.[1] According to testimony before the Senate Committee on Natural Resources and Agriculture, other states in the Midwest such as Minnesota, Indiana, Illinois, and Nebraska have provided the aviation industry with similar tax credits when purchasing sustainable aviation fuel, causing the aviation industry to purchase from different markets. Some believe that incentivizing the production of sustainable aviation fuel in Michigan would support Michigan's agricultural industry by encouraging domestic production of sustainable aviation fuel and would assist in the MI Healthy Climate Plan's efforts toward net zero carbon emissions by 2050.

CONTENT

Senate Bill 236 (S-2) would enact the "Sustainable Aviation Fuel Incentive Program Act" to do the following:

- **Require the Department of Environment, Great Lakes, and Energy (EGLE) to create and administer the Sustainable Aviation Fuel Incentive Program (Program) to encourage the production of sustainable aviation fuel in the State for use by flights departing from the State.**
- **Allow EGLE to approve a maximum of $4.5 million in sustainable aviation fuel tax credits for fiscal year (FY) 2025-2026 and up to $9.0 million during each following fiscal year.**
- **Create the application and certification process for those seeking the tax credit.**
- **Prescribe a felony punishable by up to one year's imprisonment or a maximum fine of $1,000, or both, for a purchaser who made a false certification.**
- **Require EGLE to submit an annual report to certain legislative committees and agencies on the operation and effectiveness of the Program for the immediately preceding fiscal year, the amount of credits certified under the Program, the number of applications received, and the number of applications approved during that fiscal year.**

Senate Bill 235 (S-2) would amend the Income Tax Act to establish a refundable tax credit for qualified taxpayers to claim up to $2 per gallon of sustainable aviation fuel that was produced in the State and was sold for use by an aircraft in the State.

The bills are tie-barred.

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[1] "Alternative Fuels Data Center", U.S. Department of Energy. Retrieved 6-12-25, https://afdc.energy.gov/fuels/sustainable-aviation fuel#:~:text=Sustainable%20aviation%20fuel%20(SAF)%20is,how%20the%20fuel%20is%20produced.

Senate Bill 236 (S-2)

The "Sustainable Aviation Fuel Incentive Program Act" would require EGLE to create the Program to encourage those engaged in the business of producing aviation fuel to produce more sustainable aviation fuel in the State. The Department would have to administer the Program, develop and use an application, approval, and certification process for the approval of sustainable fuel tax credits, and make that process available on its website.

"Aviation fuel" would mean any gasoline, distillate, benzine, naphtha, benzol, or other volatile and inflammable liquid produced, compounded, and used for propelling aircraft.

"Sustainable aviation fuel" would mean aviation fuel that satisfied all the following:

-- Is derived from biomass, waste streams, renewable or zero emissions energy sources, or gaseous carbon oxides until January 1, 2030, where the aviation fuel must be derived from domestic feedstock resources and must not be derived from coprocessing an applicable material, or materials derived from an applicable material, with a feedstock that is not biomass.
-- Meets the requirements of the ASTM International D7566 "Standard Specification for Aviation Turbine Fuel Containing Synthesized Hydrocarbons" or D1655 "Standard Specification for Aviation Turbine Fuels".
-- Achieves at least a 50% life-cycle greenhouse gas emissions reduction in comparison with petroleum-based aviation fuel, as determined by either the most recent life-cycle methodology for calculating the life-cycle emissions of sustainable aviation fuels adopted by the International Civil Aviation Organization with the agreement of the United States; the most recent version of the Argonne National Laboratory's Greenhouse gases, Regulated Emissions, and Energy use in Technologies (GREET) model, inclusive of, but not limited to, climate smart agricultural practices, on-site renewables, and carbon capture and sequestration; or any other model EGLE approves to calculate life-cycle greenhouse gas emissions for sustainable aviation fuel.

"Biomass" would mean any organic matter that is available on a renewable or recurring basis, including agricultural crops and trees; wood and wood waste and residues; plants, including aquatic plants, grasses, residues, and fibers; animal fat; and the organic portion of solid wastes.

"Greenhouse gas" would mean carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, or sulfur hexafluoride.

Under the Act, EGLE could not approve and certify more than $4.5 million in sustainable aviation fuel tax credits under the Program during FY 2025-2026. For each fiscal year after FY 2025-2026, the maximum amount allowed to be approved and certified under the Program would be $9.0 million.

A person seeking to claim a sustainable aviation fuel tax credit would have to submit an application for approval and certification of the number of gallons of sustainable aviation fuel and the amount of sustainable aviation fuel tax credit allowed to be claimed by the applicant as proposed by Senate Bill 235 (S-2) to EGLE in a form and manner prescribed by EGLE within two months after the close of the person's tax year. The person would have to submit all the following with the tax credit application:

-- Evidence that the person was engaged in the business of producing or blending sustainable aviation fuel in the State and that the sustainable aviation fuel sold during the tax year for which the credit was sought to be claimed satisfied the requirements of the Act.

-- Evidence that the aviation fuel was sustainable aviation fuel and, for a person seeking the increased credit of the sustainable aviation fuel tax credit, evidence of the total percentage reduction in life-cycle greenhouse gas emissions above 50%.
-- Copies of each purchaser's certification that the sustainable aviation fuel purchased in the State from that person was purchased for use as fuel in an aircraft departing from an airport in the State.

For purposes of the purchaser's certification required by the latter provision, if the purchaser were a wholly owned subsidiary of an airline operator, the purchaser could make the certification for the tax credit based on information from the airline operator that the sustainable aviation fuel was purchased for use in an aircraft departing from an airport in the State. A purchaser that was a wholly owned subsidiary of an airline operator that made a certification based on information from that airline operator would be deemed to have the same knowledge of the accuracy of such information as the airline operator.

If a purchaser made a certification that it knew or had reason to know was false, any person responsible for preparing or submitting that certification would be guilty of a misdemeanor punishable by up to one year's imprisonment or a maximum fine of $1,000, or both.

Within 30 days after receipt of a fuel tax credit application, EGLE would have to approve, reject, or request additional information if deemed necessary. If EGLE requested additional information, the applicant would have 30 days upon receipt of that notification to submit the information or the application would be considered abandoned and rejected.

If EGLE rejected an application, it would have to notify the applicant in writing and include the reasons for the rejection. If EGLE approved the application, it would have to issue a certificate to the applicant. The certificate would have to state all the following:

-- That the person was a qualified taxpayer.
-- The sustainable aviation fuel for which the credit was being claimed by the qualified taxpayer was qualified sustainable aviation fuel.
-- The total amount of the qualified sustainable aviation fuel and the maximum amount of the sustainable aviation fuel tax credit allowed to be claimed by the qualified taxpayer for the designated tax year.
-- The taxpayer's Federal employer identification number or the Michigan Department of Treasury number assigned to the taxpayer.

By January 1 of each year, EGLE would have to submit a report on the operation and effectiveness of the Program for the immediately preceding fiscal year to the Senate Energy and Environment Committee, the House of Representatives Energy Committee, the Senate and House of Representatives Appropriations Committees, and the Senate and House Fiscal Agencies. The report would have to include the total amount of sustainable aviation fuel tax credits certified under the Program, the number of applications received, and the number of applications approved during the fiscal year.

Senate Bill 235 (S-2)

Generally, the Income Tax Act provides for the imposition and levy of an income tax in the State and provides for credits against the tax. For the tax years beginning on or after July 1, 2026, the bill would allow a taxpayer engaged in the use of sustainable aviation fuel to claim a credit against the income tax imposed in an amount equal to $1.50 per gallon on sustainable aviation fuel that met the following requirements:

-- Was produced or blended within the State by the qualified taxpayer.

-- Was sold in the State during the tax year by that taxpayer to a purchaser that certified that the fuel was purchased for use for flights departing the State.

"Qualified taxpayer" would mean a taxpayer that is engaged in the business of producing or blending sustainable aviation fuel in the State and that has been issued a tax credit certificate under the "Sustainable Aviation Fuel Incentive Program Act" proposed under Senate Bill 236 (S-2).

The amount of the credit per gallon of sustainable aviation fuel would increase by 2 cents for each 1% reduction in the life-cycle greenhouse gas emission above 50%, as determined under the "Sustainable Aviation Fuel Incentive Program Act" but could not exceed $2 per gallon.

A taxpayer could not claim a credit unless EGLE had issued a tax credit certificate to the taxpayer. The qualified taxpayer would have to attach the Program certificate proposed under Senate Bill 236 (S-2) to the taxpayer's annual tax income tax return. A qualified taxpayer would not be allowed to claim a credit in an amount greater than the maximum amount stated on the tax credit certificate for the designated tax year. If the amount of the credit exceeded the taxpayer's liability for the tax year, the portion that exceeded the tax liability would have to be refunded.

MCL 206.678 (S.B. 235)

PREVIOUS LEGISLATION

(This section does not provide a comprehensive account of previous legislative efforts on this subject matter.)

Senate Bills 235 and 236 are similar to Senate Bill 447 of the 2023-2024 Legislative Session. Senate Bill 447 passed the Senate and was referred to the House Committee on Government Operations but received no further action.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Sustainable aviation fuel is the only existing fuel that will help the aviation industry decarbonize in the short-term. While alternative fuels other than sustainable aviation fuel are being explored to meet decarbonization goals, none are yet ready to implement. For example, testimony indicates that batteries are not yet energy-dense enough to fuel an aircraft and hydrogen fuel is still in the beginning phases of research; therefore, sustainable aviation fuel is the most sustainable alternative to traditional jet fuel that can currently be implemented. Additionally, sustainable aviation fuel is a "drop-in" fuel, which means that existing airplanes are equipped to handle it within current fuel tanks and require no further technological innovation to fly on it. Currently, a 1-to-1 ratio of sustainable aviation fuel and jet fuel can be mixed to fuel a plane; however, sustainable aviation fuel is expensive, costing anywhere from two to 10 times the price of traditional jet fuel. The bills would decrease the cost of sustainable aviation fuel, which would incentivize the aviation industry to buy more of it and decarbonize.

Supporting Argument

The bills would support corn farmers and agribusinesses that grow and supply the feedstock used in sustainable aviation fuel. Lately, Michigan's corn farmers have faced economic challenges. According to testimony before the Senate Committee on Natural Resources and Agriculture, since 2022, the price of corn has decreased by over 40%, while the price of inputs, logistics, and other factors have increased due to inflation. Creating a new market that increases demand for corn would provide small farmers with necessary economic relief from these increased prices. By increasing demand and increasing wages for farmers,

agribusinesses such as agricultural retailers that supply seed, crop nutrients, and technology also would prosper. Additionally, the current market for corn as livestock feed could continue unabated. Testimony indicates that sugar and starch are the only components of a corn kernel extracted at an ethanol refinery, and so the refinement process preserves the ideal feed for livestock, the protein and fiber, within the kernel. The bills would create a new market for Michigan corn farmers and would maintain the availability of feed for Michigan's livestock sector, potentially increasing the wages of Michigan's corn farmers.

Opposing Argument

The bill's $9.0 million tax credit to the aviation industry is not the best strategy to reduce carbon emissions in Michigan. Firstly, the $9.0 million per year spent to offset the costs of purchasing sustainable aviation fuels could instead go toward more efficient methods of reducing carbon emissions, such as investing in alternative means of transportation. Additionally, according to testimony before the Senate Committee on Natural Resources and Agriculture, ethanol fuel production produces more than double the harmful emissions per gallon of fuel production than jet fuel production when accounting for the entire production cycle. This is in part because about 80% of Michigan's ethanol refineries do not have to adhere to current renewable fuel standards as they were grandfathered into older standards. Given that the production of sustainable aviation fuel may not be more sustainable than the production of traditional jet fuel, the bills should not incentivize its production.

Legislative Analyst: Alex Krabill

FISCAL IMPACT

Senate Bill 236 (S-2)

The bill would have a negative fiscal impact on EGLE. The extent of this impact is currently indeterminate but would be limited to the full-time equivalents and administrative costs associated with fulfilling the requirements outlined in the bill; developing and administering an application, approval, and certification process for the sustainable aviation fuel tax credits.

The bill could have an indeterminate negative fiscal impact and an indeterminate positive fiscal impact on State and local government. New misdemeanor arrests and convictions under the bill could increase resource demands on law enforcement, court systems, community supervision, and jails; however, it is unknown how many people would be prosecuted under provisions of the bill. Local jail costs vary by jurisdiction and thus costs for local governments would vary. Local revenue to local libraries could increase under the bill as any additional revenue from imposed fines would go to local libraries.

Senate Bill 235 (S-2)

The bill would reduce State General Fund revenue by an unknown amount that would depend on the relative prices of different types of aviation fuel, the amount of fuel produced that was eligible for the credit, and what credit level taxpayers would be eligible to claim. In order to be eligible for the tax credit, the fuel must be produced in the State. Fuel produced outside of the State and imported into the State would not be eligible.

The portion of aviation fuel production that would be eligible for the credit is unknown. If production eligible for the credit represented 10% of the fuel sales, then absent the limitations in Senate Bill 236 (S-2), the credit would reduce revenue by between $40.8 million per year,

at the minimum credit level, and $54.4 million per year, at the maximum credit level. The revenue reduction would be less if a lower percentage of consumption were eligible for the credit, and more if a larger percentage were eligible; however, Senate Bill 236 (S-2) would limit the total amount of approved credits to $4.5 million in FY 2025-26 and $9.0 million in subsequent fiscal years.

It is unclear how the fiscal year limits on the tax credits would interact with taxpayer's tax years. Senate Bill 236 (S-2) would require taxpayers to file an application for a credit with EGLE within two months of the end of a taxpayer's tax year. The bill does not indicate how EGLE would process credits within the limits on aggregate credits, such as whether the credits would be granted first-come-first-served or whether EGLE would accept applications through a due date and then prorate the credits granted across eligible applicants. The revenue reduction in any given fiscal year could differ from the fiscal year limits because it is unclear if taxpayers would file amended returns to claim credits or would claim them in subsequent tax years. Under such variations, the actual revenue reduction in any fiscal year could be greater or less than the limits in Senate Bill 236 (S-2) but would average those limits over the long run.

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