

Reproduced with permission from Tax Management Weekly State Tax Report, Real Estate Used in Algae Production Classified as ?Agricultural Property? in Iowa , 07/05/2013. Copyright © 2013 by The Bureau of

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Iowa

Tax Base

Real Estate Used in Algae Production Classified as “Agricultural Property” in Iowa

Under legislation enacted in Iowa, real estate used in the production of algae to be harvested as a crop for animal feed, food, nutritionals, or biofuel production is classified as “agricultural property,” for valuations established on or after Jan. 1, 2013. [**H.B. 632, enacted 5/24/13**]

As a result of the “agricultural property” classification, algae is “on the same economic footing as corn and soy,” says Tim Burns, CEO of BioProcess Algae LLC.

Unlike other property types which are taxed based on market value, agricultural property is taxed based on its productivity value. In addition, various tax credits such as the agricultural land credit are available, all of which results in lower property taxes for this type of property.

In order to qualify as “agricultural property” under the legislation, the real estate must be an enclosed pond or land containing a photobioreactor, which is a device used to cultivate algae. Photobioreactors convert carbon dioxide emissions and light into high value feedstock.

BioProcess Algae operates a bioreactor that is tied to an ethanol plant in Shenandoah, Iowa. The company’s “co-location platform,” as it is called, is set up so that its algae bioreactor system uses the carbon dioxide emissions from the ethanol plant, thereby “improv[ing] the environmental footprint,” explains Burns.

The Game Changer. In addition to reducing its environmental impact, “[t]he ethanol plant gets the opportunity to monetize its carbon dioxide, which is a game changer,” says Burns.

Without the legislation, the company would have chosen Iowa for its photobioreactors only on “a demonstration scale versus a commercial scale” because “the economics are difficult to pencil without the tax parity,” Burns explains.

The “commercialization of algal products is inevitable,” says Burns. With the global population increasing from 7 to 10 billion by 2050, “the world will continue to search for efficient, sustainable, high quality proteins and oils.”

The “agricultural property” classification is an important factor for BioProcess Algae as it expands its in-state operations going forward in order to “target the high value feed markets which are close to Iowa,” says Burns.

Are Biofuels the Next Big Thing? In addition to animal feed, algae can also be used to make numerous other products such as biofuels.

BioProcess Algae was recently awarded a \$6.4 million grant by the U.S. Department of Energy as part of a pilot program to develop biofuels for military use. The assistance is a matching grant, so the company is putting up \$6.4 million of its own money for the project, notes Burns.

Although “algae biofuels were the initial big national interest,” Burns believes “the route to algae biofuels is through a coproducts market which means having materials going into higher-value product market[s] then

having lower value coproducts material going into bigger markets such as biofuels.”

During the process of making biofuels, large amounts of algal biomass are created that can be used to make higher-value coproducts such as human food, specialty feeds, chemicals, cosmetics, and pharmaceuticals. Going forward, Burns says the company plans to locate its bioreactors on carbon dioxide emitter locations in other states, as well as foreign countries, and will decide in the future what percentage of its harvested algae will be used specifically for biofuels.

Iowa is positioning itself to be a leader in another crop, as the legislation builds on “the state’s strength and stature around agriculture nationally,” he adds.

The legislation took effect May 24, but applies retroactively to assessment years starting on or after Jan. 1.

Full text of the legislation is available online at <http://coolice.legis.iowa.gov/linc/85/external/govbills/HF632.pdf>.

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