An Update on State and Federal Announcements Regarding Diesel and Fuel Affordability

Highlights

- Following a letter from NC Farm Bureau and a coalition of NC ag groups, on September 30, 2026, Governor Josh Stein directed the North Carolina Department of Revenue to provide penalty relief from prohibition on the highway use of red dye diesel fuel through the end of 2026.
- On October 5, 2026, President Trump signed an Executive Order to temporarily allow off-road dyed diesel for highway use and further defer the applicable Federal excise tax to lower cost for Americans. We are awaiting additional information and guidance from the US Department of Treasury in order to understand what implementation of the EO looks like.
- On October 7, 2026, the North Carolina General Assembly convened a special session and passed HR 3, Relief at the Pump, which temporarily suspends the state's motor fuels tax through November 30, 2026, and codifies Governor Stein's earlier directive on dyed diesel for farm use through the end of 2026.

Additional Background and Resources

On September 30, 2026, NC Farm Bureau led a coalition of NC ag groups in writing a letter to the Governor regarding relief for farmers from high diesel costs. Later that day, Governor Josh Stein announced he was directing the North Carolina Department of Revenue to provide penalty relief from prohibition on the highway use of red dye diesel fuel through the end of 2026. Governor Stein also wrote to the Internal Revenue Service requesting federal penalty relief for the use of the same fuel.

NC Farm Bureau President Shawn Harding issued the following statement:
"North Carolina Farm Bureau greatly appreciates Gov. Josh Stein's executive order today providing farmers timely and meaningful relief as they face record-high diesel prices at harvest time. Diesel expenses have been the number-one concern I've heard from farmers in what has already been a challenging year, and this week North Carolina Farm Bureau and the agricultural community joined in a letter asking Gov. Stein for help. This action comes less than a day after he received our letter, and we are truly grateful for these effective and practical measures toward protecting and preserving North Carolina's farm businesses."

NC Farm Bureau Coalition Letter
Governor Stein's Letter to North Carolina Department of Revenue Secretary Wooten
Governor Stein's Letter to the Internal Revenue Service

On October 1, 2026, the American Farm Bureau Federation sent a letter to President Donald J. Trump asking the Administration to temporarily suspend the federal highway diesel tax for agricultural transportation and quickly waive federal penalties for emergency use of dyed diesel on highways.

American Farm Bureau Federation Letter to President Trump

On October 2, 2026, Congressman Don Davis (NC-01) followed Governor Stein's lead in urging the Internal Revenue Service to grant North Carolina the longest available period of federal penalty relief for highway use of dyed diesel fuel, providing temporary relief as farmers face record diesel prices during harvest season.

Congressman Davis's Letter to the Internal Revenue Service

On October 5, 2026, President Trump signed an Executive Order to temporarily allow off-road dyed diesel for highway use and further defer the applicable Federal excise tax to lower cost for Americans. The order:

- Directs the Secretary of the Treasury, in consultation with the Secretary of War, to defer payment of the Federal excise tax imposed for on-road use of dyed diesel fuel for the remainder of the year without interest or penalties, and to explore pathways to eliminate the obligation to pay the deferred taxes.
- Directs the Secretary of Transportation to coordinate with States, industry leadership, and labor organizations on access to dyed diesel.
- Directs the Secretary of Agriculture to ensure farmers' access to dyed diesel in high-demand areas, and to encourage corresponding action by States.
- Directs the Director of the White House Office of Intergovernmental Affairs to encourage more States to adopt policies that correspond with the Secretary of the Treasury's actions pursuant to this Order.

The following information and guidance from the US Department of Treasury was issued on October 14, 2026:

IR-2026-122, Oct. 14, 2026

WASHINGTON — The Internal Revenue Service today announced that, in response to the President's Oct. 5, 2026, Executive Order, *Emergency Tax Relief on Diesel Fuel*, it will not impose a penalty when dyed diesel fuel is sold for use or used on highways nationwide.

The relief is retroactive to Oct. 1, 2026, and will remain in effect until Dec. 31, 2026. Relief is available to any person that sells dyed diesel fuel or uses dyed diesel fuel for highway use.

Ordinarily, dyed diesel fuel is not subject to tax because it is destined for an exempt use, such as use on a farm for farming purposes; however, it would be taxed if sold for highway use or used to power a vehicle on the highway. Generally, the person liable for the tax is the person who sells dyed diesel fuel at retail or, if the dyed diesel fuel is not purchased at retail, the operator of the motor vehicle (e.g., dyed diesel fuel held in a storage tank on a farm).

During the relief period, ordinary procedures for collection and enforcement will be suspended. All IRS Fuel Compliance Officers will be re-assigned other responsibilities, and no federal inspections of on-road dyed fuel usage will occur. During the relief period, taxpayers need not maintain records necessary to substantiate their eligibility for relief. The IRS will not impose any penalties related to the excise tax for dyed diesel fuel sold for use or used in diesel-powered vehicles on highways nationwide during the relief period. This relief includes penalties for failure to make semimonthly

deposits of tax or to maintain adequate records. Sellers and distributors are under no obligation to investigate or document the ultimate end-use of dyed fuel sold during the relief period.

Taxpayers who believe they qualify for relief but receive a penalty notice should follow the instructions in the notice or contact the IRS for assistance.

The IRS anticipates that it will issue further guidance as to the postponement under 26 U.S.C. 7508A of payment of taxes imposed by 26 U.S.C. 4041(a)(1)(A) or by 26 U.S.C. 4041(b)(1)(B), and will explore avenues to eliminate the obligation to pay any amounts deferred. Forthcoming IRS guidance will detail how this relief applies to Form 720 (Quarterly Federal Excise Tax Return) and any other relevant forms.

This relief only applies for federal tax purposes. It has no effect on state fuel taxes and penalties that a state may impose on the use of dyed diesel fuel on the highway. Many, but not all, states have provided similar state excise tax-related relief. Taxpayers are encouraged to refer to their applicable state agencies for the latest guidance on state-level relief.

President Trump's Executive Order
White House Diesel Affordability Fact Sheet
IRS Press Release

On October 7, 2026, the North Carolina General Assembly convened a special session and legislators filed bills in both chambers to address high gas and diesel prices. Although only one version of the bill was sent to the Governor's desk, the House and Senate each introduced identical proposals. The House version was sponsored by Speaker Destin Hall. The Senate version was sponsored by Sens. Lisa Stone Barnes, Buck Newton and Michael Lee.

The bill would:

- Immediately suspend through November 30, 2026, the motor fuel tax on all motor fuels, including gasoline, diesel, and alternative fuel, effective the day after the bill becomes law. The Department of Revenue and the Department of Agriculture and Consumer Services are directed to notify affected parties as soon as practicable.
- Require that the full benefit of the suspension be passed on to the ultimate purchaser of motor fuel. However, no retailer would be required to reduce the price per gallon of motor fuel if the retailer's cost already includes the motor fuel tax because the tax accrued prior to the effective date of the suspension.
- Hold harmless the funds and accounts that would otherwise receive the motor fuel tax proceeds by directing the State Controller to transfer, on a monthly basis, those amounts from the Inflation Reserve.
- Upon the effective date of the act and through December 31, 2026, waive the enforcement of the civil and criminal penalties applicable to a person who uses dyed diesel fuel in a highway vehicle if the use is for farming or agricultural purposes. This waiver would align with the civil penalty relief that the Governor directed the Department of Revenue to provide.
- For the period beginning October 1, 2026, through December 31, 2026, exempt from motor fuel tax the use of dyed diesel used to operate a highway vehicle by farmers, commercial loggers, commercial fishermen, and wildlife managers if those individuals have been issued a sales tax exemption certificate by the Department of Revenue.

- Direct the Secretary of Revenue to disregard the suspension of the motor fuel tax when setting the motor fuel tax rate that will become effective on January 1, 2027, to the extent the rate is an adjustment of the rate from the preceding calendar year.

It now goes to the Governor's desk for signature.

SB 2 Relief at the Pump
HB 3 Relief at the Pump

Frequently Asked Questions:

Which highways can be used when running dyed diesel?

North Carolina's current relief applies specifically to highway use associated with farming and agricultural purposes. The state does not have the authority to provide penalty relief on interstate highways or in other states. Additional federal implementation guidance is expected from the U.S. Department of the Treasury and Internal Revenue Service regarding the Executive Order, including the specific relief being granted, covered taxpayers, applicable conditions, and the date by which deferred federal taxes must ultimately be paid.

Until the federal agencies have issued guidance, farmers should only use dyed diesel on state highways in the state of North Carolina.

Can I run dyed diesel over state lines?

Tennessee has also suspended enforcement of dyed diesel restrictions on Tennessee's agricultural economy through the end of October. Other neighboring states have not yet made announcements, so dyed diesel restrictions still apply in those states.

What will happen when the exemption period is over?

When the exemption period is over at the end of 2026, vehicles should be thoroughly cleaned out and running free of dyed diesel. Each individual will need to determine if the cost of clean-out and potentially replacing fuel filters is worth it for their operation. NC Farm Bureau will continue working with relevant state and federal agencies to help ease this transition and address any issues that may arise.

American Farm Bureau FAQs:

For states where the governor has not authorized on-road use of red-dyed diesel for agricultural purposes, what options are available to farmers and ranchers seeking relief?

Currently, there are no options. Farmers should follow their state regulations.

How long can red dye remain detectable in a truck's fuel system or fuel filter after switching back to clear diesel, and is there a grace period for enforcement after an executive order or waiver expires?

Red dye can stay in fuel filters for several tanks. There is not a built-in grace period for this. State FBs should ask state agencies how they will enforce this.

Is there sufficient supply of red-dyed diesel to accommodate increased agricultural demand if more states authorize its on-road use?

There are concerns of shortages. However, there are not great data sources for this.

Are there concerns about higher-sulfur dyed diesel damaging newer diesel engines, particularly equipment manufactured after 2014? How should Farm Bureaus communicate this risk to members, and is this primarily a Texas issue?

Note, that new equipment cannot handle high-sulfur diesel. Members with access to high-sulfur fuel should be cautious.

Does using red-dyed diesel in an on-road truck affect or void the manufacturer's warranty, even when its use is temporarily authorized for agricultural purposes?

We are continuing to track this down.

For vehicles operating under IFTA, how should farmers and agricultural haulers record purchases and use of dyed diesel when state tax treatment and exemptions differ across state lines?

Members should follow their state regulations and not use dyed diesel if crossing into states where use is not authorized.

In states that do not waive their state diesel tax and continue to require clear diesel for on-road use, will farmers or agricultural haulers have an opportunity to claim a refund, tax credit or other reimbursement for the state fuel tax paid?

Not that we are aware.

More broadly, how should farmers handle interstate travel when one state permits on-road dyed diesel and a neighboring state does not?

Members should follow their state regulations and not use dyed diesel if crossing into states where use is not authorized.

President Trump's Executive Order says taxes will be deferred until after the Executive Order expires (Dec. 31, 2026). Are these taxes going to be eliminated? Should farmers keep track of their on-road dyed diesel fuel use through Dec. 31, 2026 just in case?

Treasury's guidance must identify the applicable deadlines for paying deferred taxes. The order directs Treasury to explore ways to eliminate the obligation, but does not forgive the tax outright. As of right now, there is no requirement for farmers to keep track of their on-road dyed diesel fuel use (if relevant state laws allow its use).