

Red-Dyed Diesel: What Farmers Need to Know About the New Federal Tax Relief

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Overview

President Trump's October 5, 2026, Executive Order on diesel fuel tax relief has created new opportunities for farmers facing high fuel costs. The order directs federal agencies to provide temporary relief involving red-dyed diesel, including penalty relief for certain highway uses through December 31, 2026.

But farmers should be careful. Federal relief does not automatically eliminate state taxes or override state restrictions. That distinction is particularly important for Kansas farmers.

Why Is Diesel Dyed Red?

Federal law generally distinguishes between diesel used on public highways and diesel used for qualifying off-road purposes. Highway diesel is ordinarily subject to a federal excise tax of 24.4 cents per gallon. Properly dyed diesel used for qualifying nontaxable purposes, such as operating tractors, combines, and irrigation equipment, generally avoids that tax.

The red dye helps enforcement officials identify fuel intended for nontaxable use. Under the traditional rules, using dyed diesel in a highway vehicle could result in federal penalties.

What Does the President's Executive Order Do?

The October 5 Executive Order directs the Treasury Secretary to determine whether existing federal law authorizes temporary relief from certain diesel fuel tax obligations incurred between October 5 and December 31, 2026.

The order also directs the IRS to announce that it will not impose certain penalties associated with selling or using dyed diesel on public highways during that period. Relief is also contemplated for certain failures to make required tax deposits.



The important distinction is that the executive order does not permanently repeal the federal diesel excise tax. Instead, it directs federal agencies to use existing statutory authority to provide temporary relief, subject to applicable legal requirements and implementing guidance.

For farmers, the practical benefit could be substantial. Dyed diesel is generally less expensive than highway diesel, and temporary relief could reduce the cost of moving farm equipment and transporting agricultural commodities.

However, farmers should not assume that every tax obligation has disappeared. The scope of the relief depends on the applicable federal guidance and the particular transaction.

The Kansas Tax Problem

Kansas farmers face an additional complication: Kansas has its own motor-fuel tax and dyed-fuel restrictions. The Kansas motor-fuel tax on diesel is 26 cents per gallon. Generally, dyed diesel used exclusively for qualifying nonhighway purposes is not subject to that motor-fuel tax. However, when the motor-fuel tax does not apply, Kansas sales or use tax may apply unless an exemption is available.

Consequently, the federal executive order does not automatically eliminate Kansas tax obligations.

As of October 9, 2026, Kansas had not adopted comparable statewide relief. Kansas law continued to restrict dyed diesel in on-road vehicles, subject to statutory exceptions. Farmers should therefore avoid assuming that the federal announcement authorizes unrestricted highway use of dyed diesel in Kansas.

The distinction is straightforward: the federal government can provide relief from federal taxes and penalties, but a presidential executive order cannot, by itself, eliminate taxes imposed under Kansas law.

How Are Other States Responding?

Several neighboring states have taken action, although their approaches differ.

- **Nebraska:** Executive Order No. 26-21 provides targeted relief associated with transporting Nebraska agricultural products. The program includes certain state penalty relief and refunds of specified state motor-fuel taxes for qualifying agricultural transportation.



- **Missouri:** Executive Order 26-19 temporarily suspends certain state restrictions and penalties involving dyed diesel in highway-registered vehicles used for agricultural purposes. The order was scheduled to expire October 30, 2026.
- **Oklahoma:** Governor Kevin Stitt directed state agencies to pause enforcement of certain taxes, regulations, and fines relating to red-dyed diesel in farm vehicles for 120 days.

These measures are not identical, and none automatically changes Kansas law. Farmers operating across state lines must consider where the fuel was purchased, how it is used, and which state rules apply.

What If a Kansas Farmer Buys Dyed Diesel in Another State?

A particularly difficult question arises when a Kansas farmer purchases dyed diesel in Nebraska, Missouri, or Oklahoma and then drives back into Kansas. Kansas law contains an exception involving certain vehicles whose fuel tanks were filled outside Kansas in a jurisdiction that does not prohibit the use of dyed fuel in motor vehicles. That exception may provide an argument that bringing the vehicle back into Kansas does not itself violate the state's dyed-fuel prohibition.

However, that does not necessarily resolve the Kansas motor-fuel tax question. Whether Kansas may impose its tax on fuel purchased elsewhere but subsequently used on Kansas roads presents a separate legal issue. The applicable statutes and constitutional principles must be considered, and the answer is not necessarily the same for every situation. Farmers should obtain reliable guidance before relying on an out-of-state purchase as a way to avoid Kansas restrictions or taxes.

What Should Farmers Do Now?

Several practical steps can help farmers avoid unnecessary tax disputes:

1. **Confirm the federal rules.** Review current Treasury and IRS guidance before using dyed diesel on public highways. The executive order alone does not answer every compliance question.
2. **Check state requirements.** Kansas farmers should not assume that federal relief eliminates Kansas taxes or restrictions.
3. **Maintain good records.** Keep invoices showing the fuel supplier, purchase date, gallons purchased, and intended use. Documenting where fuel was purchased and how it was used is particularly important when operating across state lines.



4. **Understand the limits of the relief.** Temporary penalty relief is not the same as permanently eliminating a tax obligation.
5. **Avoid unsupported tax claims.** Farmers should not claim a federal fuel-tax credit for tax that was never paid. The rules governing recovery of previously paid federal excise tax depend on the particular circumstances and applicable law.

The Bottom Line

The October 5 Executive Order offers potentially meaningful, temporary relief for farmers facing high diesel costs. Allowing certain highway uses of red-dyed diesel without the ordinary federal penalty consequences could reduce operating expenses through the end of 2026. But the relief is temporary, subject to implementing guidance, and does not automatically override state law.

For Kansas farmers, the most important point is to distinguish between federal and state requirements. Until Kansas provides applicable relief or clarifies its position, farmers should not assume that the President's announcement authorizes unrestricted highway use of dyed diesel or eliminates Kansas tax obligations.

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