

Key tax proposals relating to renewable energy tax credits

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The House of Representatives passed the [One Big Beautiful Bill Act](#), which includes provisions terminating or otherwise significantly affecting renewable energy tax credits, on May 22, 2025. This update describes key provisions affecting renewable energy tax credits and highlights important considerations for taxpayers.

Overview

The House of Representatives approved the [One Big Beautiful Bill Act](#) on May 22, 2025. The tax changes in Title XI, as revised by certain [amendments](#), would terminate or otherwise significantly affect renewable energy tax credits. We described other key provisions in the House tax bill in a client update that can be accessed [here](#).

Repeal of Inflation Reduction Act clean electricity tax credits

- Under current law, electricity produced by certain qualified facilities that do not emit greenhouse gases may qualify for a 10-year production tax credit (the Section 45Y PTC).
- Alternatively, under current law, investments in certain qualified facilities that produce clean electricity, as well as energy storage technology, are eligible for an investment tax credit (the Section 48E ITC).
- The House tax bill would eliminate both the Section 45Y PTC and Section 48E ITC for facilities (other than certain nuclear facilities, credits for which are repealed beginning in later years) and property (i) the construction of which begins more than 60 days after the date of enactment or (ii) that are placed in service after December 31, 2028.
- The House tax bill would also eliminate the Section 45Y PTC and Section 48E ITC for property that is leased to a third party that would qualify for the residential clean energy credit, such as residential solar property, for taxable years beginning after the date of enactment.
- In addition, the House tax bill would eliminate Section 45Y PTCs and Section 48E ITCs for any facilities the construction of which begins after December 31, 2025 if the construction includes “any material assistance from a prohibited foreign entity” (including entities with specified relationships with governments, citizens or residents of China, Russia, North Korea or Iran, discussed further below). “Material assistance” means, with respect to any property, that **any** component, subcomponent or applicable critical mineral included in the property is extracted, processed, recycled, manufactured or assembled by a prohibited foreign entity, or any design of the property is based on intellectual property provided by a prohibited foreign entity, with limited exceptions. As a practical matter, given the broad scope of this rule, facilities that begin construction after December 31, 2025 may fail to qualify for these credits even if they otherwise would satisfy the effective date rules (e.g., because the legislation is not enacted before early November). The House tax bill includes additional restrictions on prohibited foreign entities, discussed below.

- Under current law, Section 45Y PTCs and Section 48E ITCs may be transferred for cash consideration to unrelated buyers. An earlier version of the bill would have repealed transferability of these credits, but those restrictions were deleted in the final House tax bill, so the House tax bill does not restrict transferability of Section 45Y PTCs or Section 48E ITCs.
- Note that the changes in the House tax bill **would not** generally affect projects qualifying for the Section 45 PTC or Section 48 ITC (which may be available for projects that began construction before 2025). However, the House tax bill would phase out the Section 48 ITC for certain equipment that uses the ground or ground water as a thermal energy source, and it would eliminate transferability of such credits.

Phase-out and repeal of transferability for Section 45X advanced manufacturing production credits

- Section 45X currently provides a PTC for certain eligible components (e.g., battery cells, solar modules, wind energy components) produced by the taxpayer and sold to unrelated parties through December 31, 2032.
- The House tax bill would:
 - Accelerate the phase-out of the Section 45X credit to December 31, 2031 (the provision currently remains in effect until December 31, 2032)
 - Repeal transferability of Section 45X credits for components sold after December 31, 2027
 - Restrict taxpayers from claiming the Section 45X credit beginning 2 years after the date of enactment for components that include any “material assistance from a prohibited foreign entity” (as described above) or are produced subject to a licensing agreement with a prohibited foreign entity (subject to a \$1M value threshold)
 - Place restrictions on “specified foreign entities” and “foreign-influenced entities” from claiming the Section 45X credit (as discussed below).

Repeal of transferability of carbon capture and clean fuel production credits

- Under current law, the performance-based tax credits under Section 45Q for carbon oxide sequestration (carbon capture) and Section 45Z PTCs for clean fuel production may be transferred for cash consideration to unrelated buyers.
- The House tax bill would repeal transferability of Section 45Q carbon capture credits for equipment the construction of which begins after the date that is two years after the date of enactment, and it would repeal transferability of Section 45Z clean fuel production credits with respect to fuel produced after December 31, 2027.

Earlier begin-construction requirement for clean hydrogen credits

- Under current law, tax credits under Section 45V for production of clean hydrogen are available for projects the construction of which begins before January 1, 2033.
- The House tax bill would accelerate that date to January 1, 2026.

Restrictions on renewable energy tax credits for “prohibited foreign entities”

- As discussed above, the House tax bill would place restrictions on claiming renewable energy tax credits if the taxpayer is or receives “material assistance” from a “prohibited foreign entity”—more specifically, a “specified foreign entity” or a “foreign-influenced entity.”

- A “specified foreign entity” is a “foreign entity of concern,” a Chinese military company operating in the U.S., certain other entities, or a “foreign-controlled entity” (a foreign government, citizen or resident, or entity organized under or having a principal place of business in North Korea, China, Russia or Iran or an entity controlled by such entity or person).
- “Foreign-influenced entities” are entities that either have specified relationships with specified foreign entities (e.g., an entity that has owners who are “specified foreign entities” and meet certain ownership thresholds) or that make payments of dividends, interest, compensation for services, rents or royalties, guarantees or certain other income above stated thresholds to specified foreign entities.
- As discussed above, “material assistance” means, with respect to any property, that **any** component, subcomponent or applicable critical mineral included in the property is extracted, processed, recycled, manufactured or assembled by a prohibited foreign entity, or any design of the property is based on intellectual property provided by a prohibited foreign entity, with limited exceptions.

Income from hydrogen storage and carbon capture added to qualifying income of certain publicly traded partnerships

- Under current law, publicly traded partnerships are taxable as corporations unless they earn certain specified categories of qualifying income.
- The House tax bill would expand the categories of qualifying income to include (i) income from the transportation or storage of liquified hydrogen or compressed hydrogen, as well as certain clean fuels, and (ii) the generation or storage of electric power or capture of carbon at qualified carbon capture facilities.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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