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WHITE PAPER

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One Big Beautiful Bill Act—Impact on Energy Tax Credits

The One Big Beautiful Bill Act (the "OBBBA"), which was passed on July 4, 2025, included several changes to the energy tax credits introduced and expanded by the Inflation Reduction Act of 2022 (the "IRA"). The key changes to these credits are summarized in this *White Paper*.

A major change under the OBBBA was the introduction of the so-called foreign entity of concern restrictions (the "FEOC Restrictions"), which apply to a number of the IRA energy credits. The impacted credits and effective dates of the FEOC Restrictions are noted here. Future commentary will provide an in-depth analysis of the FEOC Restrictions.

TERMINATION OF CLEAN VEHICLE CREDIT
(IRC § 30D)
(OBBBA § 70502)

Effective Date	Applies to vehicles acquired after September 30, 2025.
Former Law	Section 30D provided a tax credit for the purchase of a new electric vehicle up to $7,500. Section 30D was set to expire for vehicles placed in service after December 31, 2032.
Change	Under the OBBBA, the credit is not available for vehicles acquired after September 30, 2025.
Insights	The electric vehicle credits were expected to be a target of the OBBBA and face an even earlier termination than what was included in earlier drafts of the bill. Although section 30D cannot be utilized after September 30, 2025, the OBBBA allows individuals to claim a deduction for car loan interest, up to $10,000 per year. This provision is subject to certain income threshold limitations and domestic assembly requirements and does not exclude electric vehicles from eligibility.

TERMINATION OF QUALIFIED COMMERCIAL CLEAN VEHICLES CREDIT
(IRC § 45W)
(OBBBA § 70503)

Effective Date	Applies to vehicles acquired after September 30, 2025.
Former Law	Section 45W provided a credit for electric vehicles purchased by a taxpayer for use in a trade or business. Section 45W was set to expire for vehicles acquired after December 31, 2032.
Change	Under the OBBBA, the credit is not available for vehicles acquired after September 30, 2025.
Insights	Many criticized section 45W for creating a “leasing loophole” to the restrictions applicable to the section 30D clean vehicle credit. Lessors and other commercial purchasers of electric vehicles may benefit from accelerated depreciation under the OBBBA.

PHASE-OUT OF CLEAN HYDROGEN PRODUCTION CREDIT

(IRC § 45V)
(OBBBA § 70511)

Effective Date Applies to facilities the construction of which begins after December 31, 2027.

Former Law Section 45V provided a tax credit for the domestic production of hydrogen in a process that results in lifecycle greenhouse gas emissions of four kilograms or less of carbon dioxide equivalents per kilogram of hydrogen produced.

The construction of the hydrogen production facility previously was required to begin before 2033 to be eligible.

Change Under the OBBBA, section 45V is no longer available for facilities the construction of which begins after December 31, 2027.

Insights The OBBBA is more favorable to section 45V than initial drafts of the bill, extending the credit's termination by two years as compared to initial drafts.

An executive order was published on July 7, 2025, ordering the Secretary of the Treasury to strictly enforce the termination of clean electricity production and investment tax credits under sections 45Y and 48E for wind and solar facilities, including by providing new guidance on what constitutes "beginning of construction." While section 45V was not mentioned in the executive order, it utilizes the "beginning of construction" language that is likely to be addressed by the new guidance.

PHASE-OUT AND RESTRICTIONS ON CLEAN ELECTRICITY INVESTMENT CREDIT (IRC § 48E) (OBBBA § 70513)

Effective Date

FEOC Restrictions

- No credit will be allowed for "specified foreign entities" and "foreign-influenced entities" for taxable years beginning after enactment of the OBBBA.
- The "material assistance" restriction applies to facilities, interconnection property, and energy storage technology that begin construction after December 31, 2025.
- The changes related to fuel cell eligibility apply to facilities the construction of which begins after December 31, 2025.

All other changes generally apply to taxable years beginning after the date of enactment of the OBBBA.

Former Law

Section 48E provided a tax credit of up to 30% for investments in qualified facilities used for the generation of electricity for which the anticipated greenhouse gas emissions rate is not greater than zero and for energy storage technology, assuming certain wage and apprenticeship requirements are met.

Change

Wind and solar facilities are subject to an accelerated phase-out under the OBBBA with the credit available only for wind and solar projects that begin construction within 12 months after the date of enactment or that are placed in service by December 31, 2027.

The credit will be phased out for all other qualified facilities that begin construction starting in 2034 with the credit fully phased out for facilities that do not begin construction before 2036.

Beginning in 2026, fuel cells are automatically eligible for the credit without needing to prove that the cell has a greenhouse gas emissions rate of less than zero.

The OBBBA introduces FEOC Restrictions to section 48E.

Beginning in 2028, if a taxpayer makes a payment that violates the FEOC Restrictions in the first 10 years after the energy facility is placed into service, all section 48E tax credits generated by such facility for all prior taxable years are subject to recapture.

Insights

Wind and solar projects are significantly impacted under the OBBBA; however, other eligible facilities fare better and were granted an extension as compared to the original House draft of the bill. Notably, energy storage technology remains eligible for the credit even if located at a wind or solar facility.

Subject to any guidance on the "beginning of construction" requirements issued pursuant to the executive order published on July 7, 2025, taxpayers that start construction before the end of 2025 may avoid the FEOC Restrictions, which may be difficult to comply with.

The new FEOC recapture rule may encourage developers of energy generation projects to opt for production tax credits under section 45Y.

It remains to be seen whether the current administration will provide guidance for combustion and gasification facilities to claim section 48E credits.

PHASE-OUT AND RESTRICTIONS ON CLEAN ELECTRICITY PRODUCTION CREDIT

(IRC § 45Y)
(OBBBA § 70512)

Effective Date FEOC Restrictions

- No credit will be allowed for "specified foreign entities" and "foreign-influenced entities" for taxable years beginning after enactment of the OBBBA.
- The "material assistance" restriction applies to facilities that begin construction after December 31, 2025.
- Penalties for substantial misstatements on supplier certifications apply to certifications provided after December 31, 2025.

All other changes generally apply to taxable years beginning after the date of enactment of the OBBBA.

Former Law Section 45Y provided a tax credit for the production of electricity at a qualified facility for which the anticipated greenhouse gas emissions rate is not greater than zero. The credit amount available was up to 1.8 cents per kWh of qualified renewable electricity produced, assuming certain wage and apprenticeship requirements are met.

Change The OBBBA makes similar changes to section 45Y as it does to section 48E, including the phase-out schedule and introduction of FEOC Restrictions (*see above*).

In addition, the OBBBA introduces a 10% bonus credit under section 45Y for advanced nuclear facilities in certain nuclear-related communities a nd penalties for substantial misstatements on supplier certifications related to credit eligibility.

Insights Like under section 48E, the OBBBA significantly impacts access to section 45Y for wind and solar facilities. Furthermore, there is no production tax credit for operating energy storage technologies like batteries.

It remains to be seen whether the current administration will provide guidance for combustion and gasification facilities to claim section 45Y credits.

MODIFICATIONS OF ZERO-EMISSION NUCLEAR POWER PRODUCTION CREDIT (IRC § 45U) (OBBBA § 70510)

Effective Date

FEOC Restrictions:

- No credit will be allowed for "specified foreign entities" for taxable years beginning after the enactment of the OBBBA.
- No credit will be allowed for "foreign-influenced entities" for taxable years beginning after July 4, 2027.

Former Law

Section 45U was established by the IRA and provided a tax credit for electricity produced at a qualified nuclear power facility placed in service prior to August 16, 2022, and sold to an unrelated person.

The maximum amount of available credit was 1.5 cents per kWh of electricity produced, assuming certain wage and apprenticeship requirements are met.

Change

The OBBBA introduces FEOC Restrictions to section 45U.

Insights

Nuclear energy fares well under the OBBBA, with minimal changes to section 45U plus a new bonus credit under section 45Y for nuclear facilities located in certain areas.

The credit is subject to the FEOC Restrictions, but not the "material assistance" rules.

RESTRICTIONS ON CARBON OXIDE SEQUESTRATION CREDIT

(IRC § 45Q)
(OBBBA § 70522)

Effective Date	The amendments related to the credit amount apply to facilities or equipment placed in service after the date of enactment of the OBBBA. FEOC Restrictions: • No credit will be allowed for "specified foreign entities" and "foreign-influenced entities" for taxable years beginning after enactment of the OBBBA.
Former Law	Under section 45Q, a taxpayer could claim a credit for the capture and disposal or use of qualifying carbon oxides by a qualified facility the construction of which begins before January 1, 2033.
Change	Under the OBBBA, the amount of credit available under section 45Q is changed to make credit values equal for both utilization and sequestration of captured carbon. The OBBBA introduces FEOC Restrictions to section 45Q.
Insights	The OBBBA may encourage enhanced oil recovery ("EOR") projects, given that the credit for EOR projects will be the same for other carbon capture products. The credit is subject to the FEOC Restrictions, but not the "material assistance" rules.

EXTENSION AND MODIFICATION OF CLEAN FUEL PRODUCTION CREDIT

(IRC § 45Z)
(OBBBA § 70521)

Effective Date

FEOC Restrictions:

- No credit will be allowed for "specified foreign entities" for taxable years beginning after the enactment of the OBBBA.
- No credit will be allowed for "foreign-influenced entities" for taxable years beginning after July 4, 2027.

All other changes, including the feedstock restrictions, generally apply to fuel produced after December 31, 2025.

Former Law

Section 45Z provided a tax credit for the domestic production of clean fuel that meets certain greenhouse gas emissions standards, which were sold to an unrelated party. The credit was available for fuel produced before 2028.

Change

Under the OBBBA, the credit is extended to December 31, 2029.

The OBBBA introduces a new requirement that fuel produced after 2025 be derived exclusively from feedstock produced or grown in the United States, Mexico, or Canada.

The OBBBA eliminates the special rate currently available for sustainable aviation fuel (making the maximum credit available for both transportation fuel and sustainable aviation fuel $1 per gallon of fuel).

The OBBBA clarifies that indirect land use emissions must be excluded from the greenhouse gas emissions rate calculation and that fuels cannot have negative greenhouse gas emissions rates, effectively capping the credit at $1 per gallon (excluding animal manure).

Additionally, the OBBBA provides a favorable amendment to the rounding rule under section 45Z as the Secretary may now round emissions rates to the nearest 5th multiple of kilograms of CO2e per mmBTU without exception.

The OBBBA introduces FEOC Restrictions to section 45Z.

Insights

While the OBBBA accelerated the phase-out for several energy credits, section 45Z was granted a one-year extension. However, fuel producers must assess their supply chains to maintain eligibility under the new domestic feedstock restriction.

The exclusion of indirect land use emissions may make section 45Z credits more appealing for producers of some fuels (like biodiesel).

The credit is subject to the FEOC Restrictions, but not the "material assistance" rules.

EXTENSION AND MODIFICATION OF CLEAN FUEL PRODUCTION CREDIT

(IRC §§ 45Z, 40A)
(OBBBA § 70521)

Effective Date	Applies to fuel sold or used after June 30, 2025.
Former Law	Under section 40A, a taxpayer could claim a production tax credit for small agri-biodiesel of $0.10 per gallon. The credit was available for fuel produced before 2025.
Change	Under section 45Z, the OBBBA extends section 40A through 2026 and increases the credit amount to $0.20 per gallon. The OBBBA makes section 40A available to be sold for cash and permits a taxpayer to claim a section 40A credit and a section 45Z credit for the same fuel.
Insights	The section 40A extension was added by the Senate in the final draft of the bill and is the only new energy credit available to be sold for cash under the OBBBA.

PHASE-OUT AND RESTRICTIONS ON ADVANCED MANUFACTURING PRODUCTION CREDIT (IRC § 45X) (OBBBA § 70514)

Effective Date

FEOC Restrictions:

- No credit will be allowed for "specified foreign entities" and "foreign-influenced entities" for taxable years beginning after enactment of the OBBBA.
- No credit will be allowed for eligible components that receive "material assistance" for taxable years beginning after enactment of the OBBBA.

Changes to the integrated component rule apply to components sold during taxable years beginning after December 31, 2026.

Former Law

Under section 45X, a taxpayer could claim a tax credit for the manufacturing and production of certain eligible components, including inverters, solar energy components, wind energy components, battery components, and critical minerals.

The credit was subject to a phase-out and would have been fully phased out after December 31, 2032 (excluding critical minerals, which were not subject to the phase-out).

Change

Under the OBBBA, the credit no longer applies to wind energy components produced after December 31, 2027.

Under the OBBBA, critical minerals are now subject to a 25% per year phase-out for critical minerals produced from 2031–2033, aligning with the phase-out schedule for all other eligible components (excluding wind). However, metallurgical coal (now an applicable critical mineral under the OBBBA) is not subject to the critical mineral phase-out, but the credit is not available for any metallurgical coal produced after 2029.

Beginning in 2027, the integrated components rule under section 45X changes such that to be an eligible integrated component, the primary component must be integrated into another eligible component within the same facility, the secondary component must be sold to an unrelated party, and >65% of the components in the secondary component must be domestically produced.

The OBBBA introduces FEOC Restrictions to section 45X.

Insights

The manufacturing credits under section 45X will provide some governmental assistance to the wind, solar, and battery industries notwithstanding the phase-out of credits under sections 30D, 45Y, and 48E.

However, the "material assistance" rules under the FEOC Restrictions may prove difficult for some manufacturers to comply with.

Any producers relying on the integrated component rule must assess their supply chains to ensure compliance with the same facility and domestic components requirements.

TRANSFERABILITY

(IRC § 6418)
(OBBBA § 70512)

Effective Date	Applies to taxable years beginning after the enactment of the OBBBA.
Former Law	Certain energy credits were eligible to be sold for cash.
Change	Eligible credits are not permitted to be sold to a "specified foreign entity" as defined under the FEOC Restrictions.
Insights	Despite initial drafts of the bill eliminating the ability of taxpayers to sell energy credits for cash, the OBBBA retains transferability as introduced under the IRA allowing taxpayers to more easily monetize energy credits.

NO CHANGES UNDER THE OBBBA

IRC § 45	Section 45 is the original production tax credit and provides a credit for the production and sale of renewable electricity that is produced from qualified energy sources, including wind, geothermal, solar, hydropower, biomass, municipal solid waste, and marine and hydrokinetic renewable energy. Section 45 is available only for facilities that began construction before 2025.
IRC § 48	Section 48 is the original investment tax credit for investments in energy property, which includes certain solar equipment, certain geothermal equipment, qualified fuel cell property, combined heat and power system property, and qualified small wind energy property. Section 48 is available only for facilities that began construction before 2025.
IRC § 48C	Section 48C provides a tax credit for advanced energy projects, including clean energy manufacturing and recycling projects, greenhouse gas emission reduction projects, and critical material projects. Taxpayers must have applied for the section 48C credit through the Department of Energy. The most recent funding under section 48C was announced in January 2025, with no additional funding scheduled or anticipated. Note, the OBBBA altered the rules relating to additional allocations under section 48C. Now, if a taxpayer fails to utilize issued certifications under section 48C, any allocation returned to the government cannot be used again.

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