Bipartisan expansion of tax credits for carbon dioxide sequestration signed into law

February 15, 2018

The Bipartisan Budget Act of 2018, signed into law by President Donald Trump on February 9, contained language that provides tax incentives for carbon sequestration under a section of the Miscellaneous Provisions. The legislation expands the carbon capture, utilization, and storage (CCUS) tax credits and allows new CCUS technologies, such as direct air capture (DAC), to qualify. The bill amends Section 45Q of the Internal Revenue Code to eliminate the tax cap on qualifying projects, make credits available to claim for 12 years, and increase credits to $50 per ton of carbon dioxide for utilization and $35 per ton for permanent storage. This language was initially proposed in the Furthering carbon capture, Utilization, Technology, Underground storage, and Reduced Emissions (FUTURE) Act (S.1535), which was introduced by Senator Heidi Heitkamp (D-ND) on July 12, 2017, and received no committee action before it was enacted as part of the Bipartisan Budget Act.

Some coal industry leaders believe increased tax credits will help bring down the cost of clean coal technology, the commercialization of which they believe is imperative to the survival of their industry. Oil and gas industry leaders view the increase in utilization tax credits for Enhanced Oil Recovery (EOR) as an incentive for an environmentally friendly practice that helps their bottom line. The renewable energy sector also benefits from the FUTURE Act incentives because the new Section 45Q tax credits are greater than the preexisting Renewables Production Tax Credit (PTC). Some environmentalists argue that EOR tax credits are perpetuating fossil fuel reliance rather than paving the way to cleaner, renewable energy. Furthermore, some view the omission of energy storage technologies within FUTURE Act as a blow to renewable energy and ultimately a clean electrical grid.