CARBON CAPTURE COALITION

Direct Pay Design Principles for Carbon Capture and the Federal 45Q Tax Credit

Over 75 companies, NGOs and unions participating in the Carbon Capture Coalition request that Congress make direct pay available as an option to utilize the 45Q tax credit more efficiently. Providing direct pay as an option for carbon capture project developers will deliver more cost-effectively the jobs, economic and emission reduction benefits sought by Congress in its landmark bipartisan reform and expansion of 45Q in 2018.

Coalition participants first recommended direct pay for 45Q in their consensus Federal Policy Blueprint released in May 2019 and in letters to the House Ways and Means and Senate Finance Committees in June 2019. A growing chorus of support for a direct pay mechanism has since emerged from other clean energy industries and advocates and from members of Congress on both sides of the aisle, especially in the wake of the COVID-19 pandemic.

The International Energy Agency reports that, due to the COVID-19 pandemic, global investments in energy technologies are set to fall a staggering 20 percent in 2020.[1] The ensuing economic crisis has constrained tax equity markets, making it difficult for carbon capture and other clean energy projects to secure private investment. Additionally, carbon capture project development is uniquely constrained by the over two-year delay by Treasury and the IRS in finalizing guidance and a proposed rule for 45Q. This has shortened the time from six years to less than four for carbon capture projects to complete planning, engineering, permitting and financing and then begin construction by the end of 2023 to qualify for the tax credit.

Given the urgency of the situation presented by COVID-19, the Coalition renews its call on Congress to act quickly to provide direct pay for 45Q, offering the following principles to guide policy design and legislation:

- Make direct pay available as a voluntary election by the project developer in lieu of claiming the 45Q tax credit;
- Structure direct pay as a payment of estimated taxes equal to the 45Q credit value;
- Provide for the election of direct pay for the twelve-year period to claim credits, as long as projects begin construction while the 45Q tax program remains authorized by Congress;
- Include 45Q in any broader legislation authorizing direct pay for other federal clean energy and industrial tax credits, including all 45Q "applicable facilities" making the election as described in 26 USC Section 45Q(f)(6), given that carbon capture projects face greater financing challenges than incumbent low and zero-carbon technologies;
- Ensure that any direct pay policy supports future economywide deployment of carbon capture and delivers jobs, economic and emissions reduction benefits by making the placement of projects in service on or after February 9th, 2018 the basis for direct pay eligibility under 45Q; and
- Ensure that individual investors electing direct pay for 45Q are not subject to the Alternative Minimum Tax (AMT) and are afforded the same treatment as individual claimants of other clean energy tax credits that offset the AMT.

As Congress weighs targeted measures to blunt the effects of COVID-19 on clean energy and industrial project development, enacting a voluntary direct pay provision would provide greater investment certainty to project developers. Particularly for carbon capture, the current situation, coupled with a shrinking window to commence construction under 45Q, risks leading to the cancelation of projects, imperiling urgently-needed jobs and economic development, as well as longer-term emissions reductions required to meet midcentury climate goals.

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[1] World Energy Investment 2020, International Energy Agency, May 2020.