CARBON CAPTURE COALITION

Stakeholder Comment on the Markup of the FY2025 Budget Resolution

Carbon Capture Coalition

Introduction

The Carbon Capture Coalition (the Coalition) appreciates the opportunity to submit this comment to the US House Budget Committee's February 13, 2025, markup of the FY2025 Budget Resolution. The Coalition is a nonpartisan collaboration of more than 100 companies, labor unions, conservation, and environmental policy organizations working together to lay the groundwork for the necessary portfolio of federal policies to enable nationwide, commercial-scale deployment of carbon management technologies. Carbon management technologies include carbon capture, removal, reuse, transport, and storage from industrial facilities, power plants, and ambient air. These technologies are essential tools in a broader federal strategy to provide reliable, affordable American energy, keep domestic sectors competitive and preserve and create jobs that families and local economies depend upon while spurring investment in domestic energy, industry, and manufacturing sectors.

The Importance of the Section 45Q Tax Credit

The federal Section 45Q tax credit (45Q) and the projects it incentivizes play a valuable role in maintaining domestic energy supplies, supporting a robust and diverse US industrial and manufacturing base, protecting and creating family-sustaining jobs that local economies depend on while simultaneously maintaining America's place on the world stage as a technology innovation leader. As with most burgeoning industries, federal investments in both tax policies and research, development, demonstration, and deployment are pivotal to the successful commercial liftoff of these technologies across the economy. Significant federal investments in carbon management and associated infrastructure over the past few years have spurred the public announcement of more than 270 domestic projects that span the carbon management value chain and technology readiness levels, signaling that good policy translates into real-world projects.

As such, American businesses and industries spanning multiple sectors, including agriculture and food, oil and gas, cement and steel, aviation and shipping, and pulp and paper, to name a few, rely on the certainty the 45Q tax credit provides to plan investments, hire workers, and obtain construction materials, among other things. In fact, companies have publicly shared that a weakened 45Q tax credit will halt project deployment and, in many cases, cause announced and future projects to relocate abroad to countries with a more favorable policy landscape.

While the 45Q tax credit is an essential policy lever for carbon management projects, the value of the credit goes well beyond being a key driver of private investment—it serves as the anchor to ensuring these projects fulfill their full potential to maintain and strengthen domestic energy production in a reliable, sustainable manner, while protecting and creating family-sustaining jobs and bolstering American industries competitiveness in global markets. Further, carbon management technologies are crucial tools for balancing the increasing need for affordable, reliable energy that drives the American economy, with the imperative to maintain the US's global leadership position in the demonstration and deployment of these technologies while countries like China, Canada, the UK, and the EU continue to invest significantly in this expanding sector.

It remains imperative that Congress maintain critical bipartisan support for the 45Q tax credit and oppose any efforts to weaken its utility to American businesses. In that same vein, remaining small-scale gaps in federal policy threaten to impede the economywide deployment of these technologies – imperiling American jobs, economic development, energy security. The Coalition recommends implementing the following essential modifications to 45Q, in order to ensure Congress maximizes its benefit to investors in the American economy.

Index 45Q for inflation

Current economics for project deployment are challenging due to a combination of inflationary pressures on raw materials and components, labor, as well as higher interest rates for securing capital. Increased credit values provided to projects developed in the industry, power, and DAC sectors are the cornerstone of the most recent enhancements made to the 45Q tax credit. However, high inflation rates from 2020 to 2022, coupled with rising rates to borrow capital, dramatically shifted the economic feasibility of energy and industrial project deployment, affecting both capital goods costs and energy prices. As a result, the cost to deploy carbon management technologies, even with higher 45Q credit levels, changed rapidly over a short period of time. The effect is particularly acute for those sectors that have higher costs to deploy carbon management technologies. These include coal and natural gas-fired power generation, diverse industrial sectors such as steel, cement, basic chemicals, and fertilizer, as well as direct air capture (DAC). Importantly, announced projects in these sectors make up more than half of the total domestic project announcements to date.

The gap between the value provided by 45Q and project deployment costs continues to widen. Inflation rates between 2020 and 2022 have already consumed more than half of the value increase of the 45Q tax credit for carbon capture retrofits in power and industry ($85 per ton for secure geologic storage). This loss in value now puts the majority of the

more than 270 publicly announced carbon management projects in this country at risk of being canceled altogether.

To prevent further erosion of the credit value and sustain projects already in the development pipeline, 45Q must be immediately adjusted for inflation, using 2021 as the base index year for the dollar figure. Adjusting the base index year to 2021 would provide a nearly 25 percent nominal value increase to the credit by 2026, consistent with the real credit levels intended by Congress through the introduction of bipartisan marker bills in 2021.

Increase commercial deployment of reused carbon

The US is uniquely positioned to lead the globe in reusing captured carbon emissions. Today, innovative companies are engineering sustainable processes for converting millions of tons of captured carbon in the United States each year into valuable products such as plastics, concrete, and fuels, among many others. To achieve this, they will need to invest billions of dollars in private capital to construct new manufacturing facilities. Section 45Q of the tax code is the foundational tax credit used to help make carbon management projects economical. Under the current statute, there is a $25 per ton disparity between those projects that reuse carbon emissions versus those that securely and permanently store the captured carbon. This disparity effectively disincentivizes the development and deployment of relatively nascent carbon reuse technologies, acting similarly to a tax on such operations. This disparity rises to $50 per ton in relation to direct air capture projects.

Luckily, robust, bipartisan support already exists to create parity between these two credit levels. In February 2023, the bipartisan Captured Carbon Utilization Parity Act was introduced by Representatives David Schweikert (R-AZ-01) and Terri Sewell (D-AL-07), aiming to increase the credit levels provided for carbon utilization to $180/ton for products sourced from direct air capture and $85/ton for those products sourced from industry and power – thereby matching credit levels provided for permanent geologic storage of CO_2 and making the carbon reuse sector more economically competitive. Current estimates on the potential uptake of CO_2 reuse to make valuable products range from 5 to 10 percent of global emissions, or several billion metric tons per year. Put simply, carbon reuse is an important, complementary effort to storing captured CO_2 in secure geologic formations and will bolster American competitiveness.

To ensure carbon reuse technologies can complement a broader portfolio of energy innovation strategies, it is important to provide parity between the credit levels for saline geologic storage and reusing captured CO_2 in the manufacturing of value-added products.

The CCU Parity Act supports carbon reuse technologies and products that are not yet cost-competitive with other incumbent, well-established products and processes.

Remove the lifecycle analysis pre-approval requirement for reuse projects to claim 45Q

As part of the FUTURE Act, which made sweeping changes to the 45Q tax credit in 2018, those taxpayers wishing to claim 45Q for the utilization or reuse of valuable products must perform a cradle-to-grave lifecycle analysis (LCA) of the project to demonstrate the permanent displacement or storage of qualified carbon oxides as compared to an incumbent product or process. Furthermore, under final regulations promulgated in 2021, carbon reuse project developers must prepare these LCAs using retrospective or real-world operating data and submit it in parallel to the Internal Revenue Service (IRS) and the Department of Energy (DOE). The regulation requires taxpayers to receive LCA approval before claiming Section 45Q credits. However, the requirement of pre-approval of the LCA does not appear in the statute.

This preapproval requirement effectively disincentivizes utilization technologies from scaling and significantly diminishes the incentive the tax credit intends to offer utilization project developers. It creates a considerable barrier for utilization projects to even claim the credit, preventing the statute from working as Congress intended. The taxpayer must make significant investments to undertake carbon utilization activities, complete the LCA, and receive prior approval before knowing if they will be able to claim the credit, which puts these technologies at a significant disadvantage. It also puts project execution in a precarious position, as developers need up-front financing to provide certainty to move forward with building a project. Put simply, most project developers will need to know if they will qualify for 45Q to secure project financing.

To avoid this issue, Treasury should issue guidance to eliminate the current preapproval requirement in Treas. Reg. § 1.45Q-4(c)(6) and instead give taxpayers an option to obtain preapproval of the LCA before claiming section 45Q credits. This option could use estimates of future data as inputs, giving taxpayers confidence in the soundness of the LCA methodology. This methodology could then be applied each year using actual data in taxpayer returns, with any residual issues with the LCA addressed during an audit. Audit review would then normally be limited to issues with input data. Such an approach would reduce the uncertainty associated with annual reviews of each taxpayer's entire LCA methodology and limit impediments to taxpayers placing utilization projects into service.

Maximize the value of 45Q to investors

By 2030, it is crucial to see further deployment of carbon management technologies in lower-cost industrial sectors and to see significant demonstrations and further cost

reductions for deployment in order to retain American leadership in technological innovation related to: heavy industrial sectors–steel, cement, and basic chemicals production–electric power generation, and DAC. The enhanced 45Q tax credit has helped close the cost gap between financing available for project deployment and the necessary financing needed to develop first-of-a-kind projects in several sectors. However, further adjustments to the tax credit are necessary to ensure investment certainty and business model flexibility.

These include:

- Ensuring direct pay mechanisms function as intended by Congress. Currently, the 45Q statute allows for-profit entities to receive the full value of the tax credit at no extra cost to the American taxpayer for the first five years of the credit and nonprofit entities to receive direct pay for the full 12 years. As a result, a for-profit entity utilizing the financing mechanism for the first five years of the credit would encounter tremendous fiscal uncertainty as it looks to finance the remaining years of the credit. To ensure that this policy has the intended impact, the direct pay mechanism for 45Q must be extended for all taxpayers for the full duration of the credit. Additionally, Congress should address differences between the election of direct pay as opposed to traditional tax equity markets, which reduces its utility to taxpayers.
- Allowing for 45Q tolling. Under current regulations, nationally declared federal emergencies provide the only pretense for investors to request to pause the timer on 45Q should a point-source go offline. Alternatively, a developer may rescind their request to receive the credit, but the same project cannot later be deemed eligible for it. Because there are many reasons outside of a taxpayer's control that a project may unexpectedly shut down, the Coalition supports revising 45Q to allow tolling (starting/stopping receipt of 45Q) at any point during the crediting period, if the facility ceases to operate due to a federally declared disaster or other circumstances beyond the operator's control.

Conclusion

The Carbon Capture Coalition appreciates the opportunity to comment on these important topics and appreciates the House Budget Committee's support in advancing federal tax policies, and 45Q in particular, to enable greater deployment of carbon management technologies and associated transport and storage infrastructure. Economywide deployment of carbon management technologies is an essential component of an "all-of-the-above" energy strategy by bolstering the continued supply of available, low-emissions energy sources. We look forward to working with members of the Committee to capitalize

on this momentum in the industry and improve upon existing tax incentives to ensure they continue to deliver the highest return on investment possible from both a financial and environmental standpoint. Should you have any questions about anything outlined in this comment, please contact Madelyn Morrison, Director of Government Affairs, Carbon Capture Coalition, at mmorrison@carboncapturecoalition.org.