CARBON CAPTURE COALITION

FACT SHEET

Transferability's Role in Scaling the American Carbon Management Industry

What is transferability?

In 2022, as part of a broader tax package, Congress enacted a transferability financing mechanism, allowing for the sale and transfer of certain energy and industrial tax credits to external third parties.

Since its inception in 2008, the federal Section 45Q tax credit has been the foundational policy mechanism incentivizing the secure storage or permanent displacement of captured carbon dioxide (CO_2) or carbon oxides (CO). Historically, 45Q project developers structured project financing through a combination of debt, tax equity, and equity. Before the enactment of a broad transferability financing mechanism, carbon capture and direct air capture (DAC) developers generally had to go to tax equity markets – a small group of lenders with a limited pool of financing – and enter complex and costly tax equity transactions.

The 45Q tax credit has long contained a limited transferability provision, allowing carbon capture equipment owners to sell or transfer credits specifically to the contractual entity storing or permanently displacing the CO_2. As enacted in 2022, however, an expanded transferability mechanism allows project developers to sidestep costly tax equity markets and sell certain tax credits generated by energy and industrial projects to a third-party buyer for cash.

Clean energy tax credit transfers are estimated to surpass the volume of investment from tax equity markets in less than two years of the enactment of the transferability provisions, providing more than $50 billion in combined investments in clean energy development. Transferability has created a much larger pool of investors, providing greater competition for tax credits and ensuring project developers realize a larger share of the 45Q tax credit.

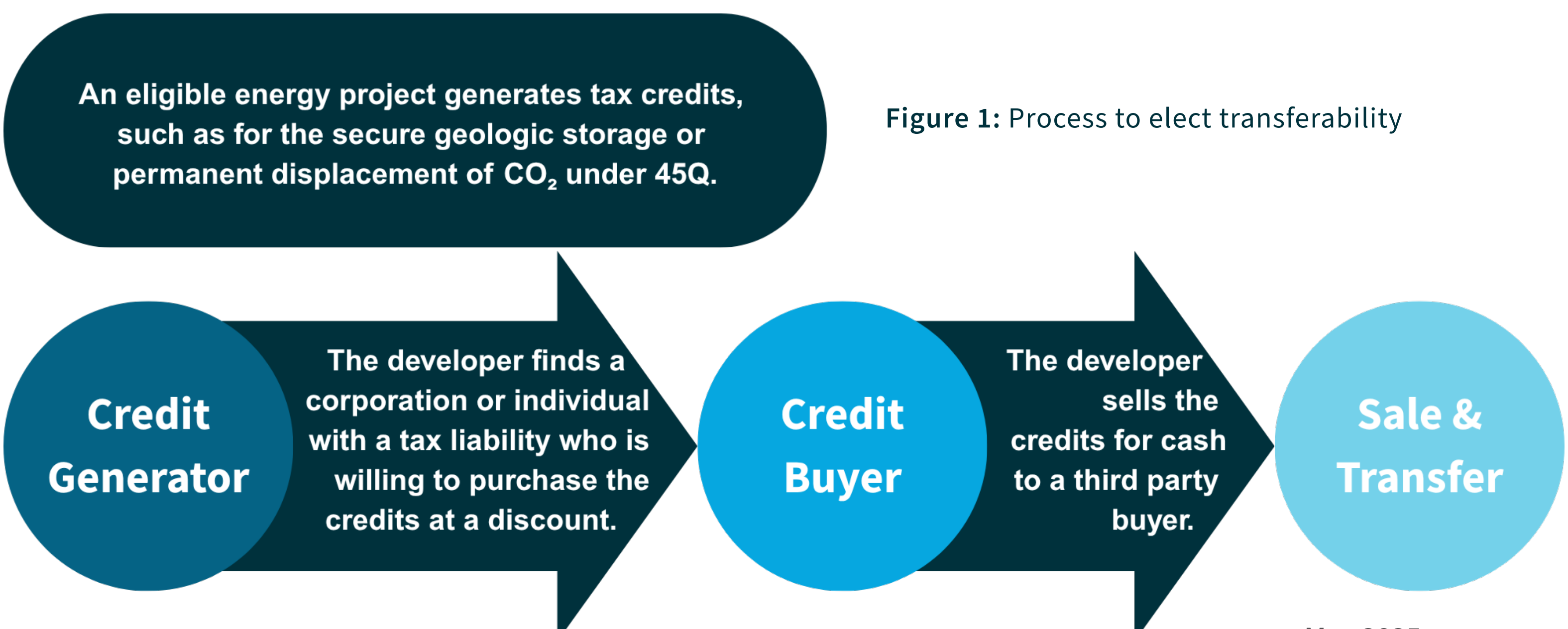


Figure 1: Process to elect transferability

May 2025

Transferability is mission-critical for scaling the carbon management industry because...

Tax equity markets are limited. Carbon capture projects often require significant upfront investment in technology and infrastructure, making them less attractive investments to tax equity lenders than other technologies competing for the same investment transactions. Subsequently, given the limited pool of investors in tax equity markets, these lenders typically favor more mature technologies. If they invest in carbon capture or DAC technologies, they generally require much higher rates of return, given the perceived risks around these technologies from lenders.

Transferability puts more of the value of the tax credit in the developer's hands. In traditional tax equity markets, investors in carbon management projects typically require higher rates of return from carbon capture project developers as opposed to more mature clean energy technologies, significantly diminishing the tax credit's value. This high rate of return is due to several factors, including the complexity of project deployment, perceived investor risk, and limited investor familiarity with these technologies. This haircut can equate to 30 percent—or more—of the tax credit's value.

In 2024, tax transfers averaged anywhere between 92 and 95 cents, or a loss of 5 to 7.5 percent of the value of the tax credit as seen in Figure 3. This cash can be used to payback construction loans for installing the carbon capture technology, and the buyer can then use the credits to reduce their tax liability. Additionally, transferability allows sellers of these credit categories to realize their cash value much sooner than other complex and lengthy financing methods. Several multi-year 45Q tax credit transfer deals were completed in 2024.

Figure 2: 2024 tax credit market composition, including forward-market deals and strip
Via Crux Climate

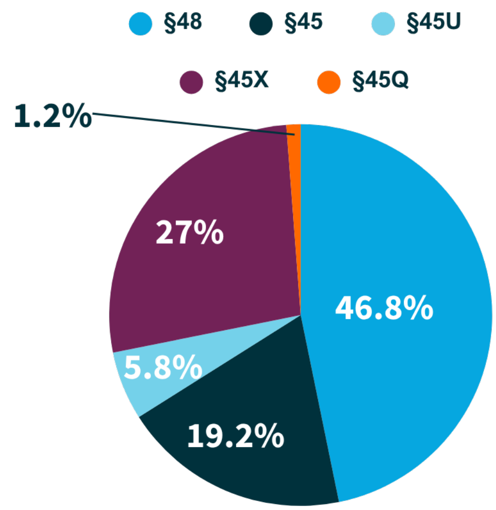
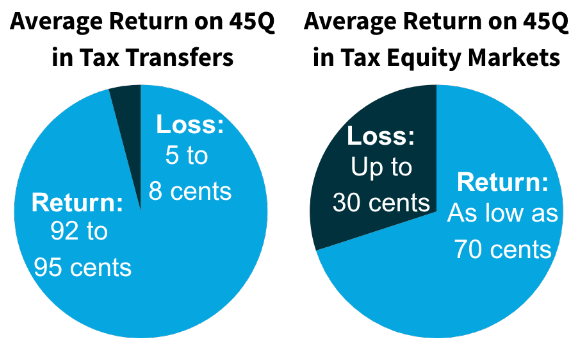


Figure 3: Average returns on 45Q, transferability vs tax equity



Many companies don't have sufficient tax liability to elect 45Q tax credits. Many companies developing carbon capture projects, especially smaller or newer developers, may not have sufficient tax liability to utilize the 45Q tax credit. Transferability allows these developers to sell their 45Q tax credits to companies or organizations with tax liability, effectively converting the tax credit into cash to pay back capital expenditures for installing carbon management technologies. This significantly increases the pool of potential investors and enables more carbon capture projects to secure financing.

Transferability can be particularly beneficial for newer technologies. Transferability facilitates the financing of carbon capture projects, encouraging innovation in carbon capture technologies and their deployment across various industries. For newer technologies like DAC, transferability provides an alternate pathway to funding and deployment. Competition in transferability markets allows sellers to maximize the economic benefit of their tax credits and supports convergence in prices based upon market perceptions of value. This competition has particularly benefited smaller project developers.

Transferability has proven its value to project developers, large and small, as an efficiency mechanism allowing developers to avoid costly and inefficient tax equity markets. Absent the ability to utilize transferability, it is anticipated that carbon management project development and deployment would slow significantly, with many, particularly smaller projects, unlikely to achieve operational status.