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Client Alert

Energy

NOVEMBER 2025

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Policy changes to the US Inflation Reduction Act of 2022 (IRA) under the One Big Beautiful Bill Act (OBBBA)

INTRODUCTION

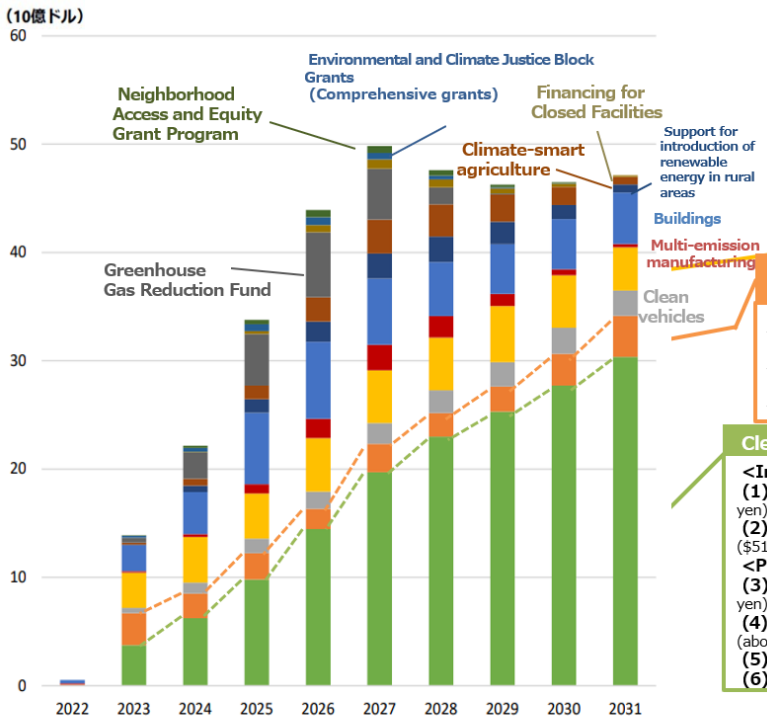
On July 4, 2025, U.S. Independence Day, President Trump signed into law his flagship tax cut bill, the One Big Beautiful Bill Act ("**OBBBA**"). This will result in changes to the policies established by the Inflation Reduction Act of 2022 ("**IRA**") passed by the Biden administration on August 16, 2022. The IRA was one of the Biden administration's key economic policies, a comprehensive law that provides for climate change measures, healthcare cost reduction, and tax reform. But with the passage of the OBBBA, it is expected that the climate change measures in the US energy sector under the IRA will be scaled back. This Client Alert provides an overview of the measures related to the energy sector set out in the IRA and then outlines the changes being made to these measures by the OBBBA.

INFLATION REDUCTION ACT

Under the IRA, the US government aims to (i) reduce the fiscal deficit by approximately US$737 billion through measures such as setting a minimum corporate tax rate and lowering prescription drug prices, and (ii) invest approximately US$369 billion in the area of "energy security and climate change" through tax credits, subsidies, and other measures. The energy security and climate change investment plan contemplates US$369 billion (approximately 52 trillion yen) being allocated over 10 years (see figure below) to expand investment in renewable energy and clean fuels, and promote the adoption of electric vehicles and clean manufacturing technologies. This plan is characterized by the use of tax credit mechanisms such as (i) investment tax credits, which allow for tax credits of up to 30% of the investment amount (initial investment support), and (ii) production-based tax credits, which allow for tax credits of a fixed amount based on energy production volume (running cost support to promote investment throughout the entire life cycle).

Energy Security and Climate Change-Related Investments in the U.S. Inflation Reduction Act

Support measures of **$369 billion (about 52 trillion yen) over 10 years** for investments related to energy security and climate change.



Clean manufacturing ($39.8 billion (approx. 5.6 trillion yen) over 10 years)

(1) Investment Tax Credit for clean technology manufacturing facilities ($6.3 billion (approx. 0.9 trillion yen))
(2) Production Tax Credit for storage batteries, solar panels, etc. ($30.6 billion (approx. 4.3 trillion yen))
(iii) Loans and subsidies for automobile factories($2.9 billion (approx. 0.4 trillion yen))

Clean fuel ($23.4 billion over 10 years (about 3.3 trillion yen))

(1) Production Tax Credit for biofuels, etc. ($5.6 billion (approx. 0.8 trillion yen))
(2) Production Tax Credit for low emission fuels (2.9 billion dollars (about 0.4 trillion yen))
(3) Production Tax Credit for clean hydrogen (13.2 billion dollars (about 1.8 trillion yen)), etc.

Clean power ($160.3 billion over 10 years (about 22 trillion yen))

<Investment Tax Credit>
(1) Investment Tax Credit for renewable energy ($14 billion (approx. 2.0 trillion yen))
(2) Investment Tax Credit for electricity facilities with zero or less emissions ($51 billion (approx. 7.1 trillion yen))
<Production Tax Credit>
(3) Production Tax Credit for renewable energy ($51 billion (approx. 7.1 trillion yen))
(4) Production Tax Credit for electricity with zero or less emission ($11 billion (about 1.5 trillion yen))
(5) Tax credit for CCS ($3.2 billion (about 0.4 trillion yen))
(6) Production Tax Credit for nuclear power ($30 billion (approx. 4.2 trillion yen))

Compiled from Congressional Budged Office (2022) and Central Research Institute of Electric Power Industry (2022), calculated at approximately 140 yen to the dollar

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(Source: Japan Ministry of Economy, Trade and Industry (METI), Corporate Behavior Division, "Status of Investment Promotion Policies in Other Countries", August 4, 2023, https://www.meti.go.jp/shingikai/economy/corporate_behavior/pdf/001_04_00.pdf [1]), p. 8

MAJOR TAX MEASURES RELATED TO ENERGY SECURITY AND CLIMATE CHANGE INVESTMENT

Under the IRA, certain target businesses, including those utilizing clean energy such as hydrogen, are eligible to receive tax credits. There are various matters to consider when assessing the major tax incentives related to "energy security and climate change-related investments" available under the IRA, which are summarized in the following table ("**IRA Major Tax Measures Table**") published by the Japan Ministry of Economy, Trade and Industry. As shown in the below table, a base tax deduction rate will apply for certain businesses or investments, and if additional requirements (market wage requirements, domestic content requirements, and energy and community requirements) are met, additional deductions or other tax benefits may be applied.

1 The same URL applies to all the METI source references cited in this Client Alert.

Investment Tax Credit		IRC[2]	Estimated Amount (Billion $)	Base Deduction Rate	Wages and Apprenticeships If Met	Domestic Materials If Met	Energy Community	Tax Credit Carryover	Tax Credit Transfer	Direct Payment
Power Generation	Renewable Electricity	48	140	6% etc.	5 times	(Wage ○) +10% (Wage ×) +2	(Wage ○) +10% (Wage ×) +2	○	○	Limited
	Clean Power	48E	509	6%	30%	(Wage ○) +10% (Wage ×) +2	(Wage ○) +10% (Wage ×) +2	○	○	Limited
Manufacturing	Advanced Energy Projects (Details on p.12)	48C	100 (upper limit)	6%	30%	—	Priority Adoption	○	○	Limited
Other	Fueling facilities for alternative fuel vehicles	30C	17	6% etc.	5 times	—	—	Partially	○	Limited
Production Proportionate Tax Credit[3]		**IRC**	**Estimated Amount (Billion $)**	**Base Deduction Rate**	**Wages and Apprenticeships If Met**	**Domestic Materials If Met**	**Energy Community**	**Tax Credit Carryover**	**Tax Credit Transfer**	**Direct Payment**
Power Generation	Renewable Electricity	45	511	¢0.3/kWh etc.	5 times	1.1 times	1.1 times	○	○	Limited
	Clean Power	45Y	112	¢0.3/kWh	¢1.5/kWh	1.1 times	1.1 times	○	○	Limited
	Zero Emission Nuclear Power	45U	300	¢0.3/kWh, etc.	5x (wages only)	—	—	○	○	Limited
Manufacturing	Advanced Manufacturing (For details, see p. 13.)[4]	45X	306	Storage batteries $35/kWh, etc.	—	—	—	○	○	○

2 "IRC" refers to the Internal Revenue Code, which comprises all US tax laws and regulations. US federal taxes are levied and collected based on the IRC.

3 Cannot be combined with the Investment Tax Credit

4 Solar power, wind power, inverters, batteries and critical minerals

Fuel	Bio/Renewable Diesel, Alternative Fuels	40A	56	$1.0/gallon	—	—	—	○	—	—
	Clean Fuel	45Z	29	¢20/gallon etc.	5 times	—	—	○	○	Limited
	Clean Hydrogen	45V	132	$0.6/kg (max), etc.	5 times	—	—	○	○	○
Other	Carbon Sequestration (Collection Proportional)	45Q	32	$17/ton etc.	5 times	—	—	○	○	○
Tax Credits for Purchasers, etc.		**IRC**	**Estimated Amount (Billion $)**	**Base Deduction Rate**	**Wages and Apprenticeships If Met**	**Domestic Materials If Met**	**Energy Community**	**Tax Credit Carryover**	**Tax Credit Transfer**	**Direct Payment**
Purchase Assistance	Clean Cars	30D	75	Up to $7,500	—	(Details p.24)	—	Partially	—	—
	Clean Used Cars	25E	13	40% of cost, etc.	—	—	—	—	—	—
	Clean Commercial Cars	45W	36	15% of cost, etc.	—	—	—	○	—	Limited
Residential and Building Retrofits	Energy Efficiency Residential Retrofits	25C	125	30%	—	—	—	—	—	—
	Residential Clean Energy Installations	25D	220	30%	—	—	—	○	—	—
	High Energy Efficiency in Commercial Buildings	179D	4	$0.5/ft^2 etc.	5 times	—	—	—	—	—
	New Energy Efficient House	45L	20	$500 ~	5 times (wages only)	—	—	○	—	—

(Source: METI, “Status of Investment Promotion Policies in Other Countries”, p. 10 (partially edited))

ACTUAL WAGE AND APPRENTICESHIP COMPONENT

The column labeled "Wages and Apprenticeships If Met" in the IRA Major Tax Measures Table above contains the contents of the prevailing wage requirements and apprenticeship requirements which must be met in order to be eligible for the relevant tax benefit. Such requirements are further summarized in the table below. The lower half of the table below lists the types of businesses and investments that are subject to these requirements. As for the prevailing wage clause summarized below, this originated from the requirement that workers employed in public projects funded by the federal government be paid the "prevailing wage" determined by the US Secretary of Labor, based on the average wages paid to workers in similar industries and occupations, as part of efforts to ensure fair working conditions for such workers.

Prevailing Wage Clause

- **All workers must be paid a wage not less than the prevailing wage for similar work in the area, as determined by the Secretary of Labor**.

※ If the requirement is not met, payment of the difference, including interest, to the worker or payment to the Secretary of Labor of $5,000 (approximately ¥700,000) per worker shall be deemed to satisfy the requirement.

※ If it is deemed that the employer intentionally ignored the law, the employer must pay the workers three times the difference between the actual wages and the prevailing wages, or $10,000 (approximately 1.4 million yen) per worker to the Secretary of Labor.

Apprenticeship Clause

- **A percentage of the total hours worked in** construction, alteration, or repair **must be performed by apprentices**. (10% if construction started before 23 years, 12.5% during 23 years, 15% thereafter)
- If four or more workers are hired for construction, alteration, or repair, one or more apprentices must be hired.

※ If the requirements are not met, the employer shall pay the Secretary of Labor $50 (approximately ¥7,000) for each hour of deficiency, and the requirements shall be deemed to have been met.

※ If it is deemed that it was intentionally ignored, 500 dollars per hour of deficiency will be charged.

<12 Tax Credit-related Provisions (red: Investment, blue: Production Proportional) that Include a Prevailing Wage Provision and an Apprenticeship Provision>

(1) Specific Renewable Energy Production Proportional (45)	(2) Specific Renewable Energy Investment (48)	(3) CCS CO2 Recovery Proportional (45Q)	(4) Proportional Nuclear Power Production (45U) *No Apprenticeship Requirement
(5) Proportional Clean Hydrogen Production (45V)	(6) Energy Efficiency Investment in Commercial Buildings (179D)	(7) Residential Energy Efficiency Investment (45L) *No Apprenticeship Requirement	(8) Alternative Fuel Supply Equipment Investment (30C)
(9) Clean Technology Production Investment (48C)	(10) Proportional Investment in Clean Power Production (45Y)	(11) Investment in Clean Power (48E)	(12) Proportional Production of Clean Fuel (45Z)

Source: Senate Democratic Party website https://www.democrats.senate.gov/inflation-reduction-act-of-2022 et al.
*Calculated at approximately 140 yen to the dollar.

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(Source: METI, "Status of Investment Promotion Policies in Other Countries", p. 26 (partially edited))

DOMESTIC MATERIAL COMPONENT

The column labeled "Domestic Materials If Met" in the IRA Major Tax Measures Table refers to the requirements for domestic materials, which are summarized in the table below. As indicated below, businesses can benefit from tax credits by meeting the requirement that a certain percentage or more of the materials used in the business be domestically produced in the US.

Eligible Taxes

		IRA	IRC	Estimated Amount (Billions $)	Base Deduction Rate	Domestic Materials If Met
(1) Financing and Promotion of Clean Energy Technologies						
Production	Renewable Electricity	13101	45	511	¢0.3/kWh, etc.	1.1 times
Investment	Renewable Electricity	13102	48	140	6% etc.	(Wages ○)+10% (Wages ×)+2%
Production	Clean Power	13701	45Y	112	¢0.3/kWh	1.1 times
Investment	Clean Power	13702	48E	509	6%	(Wage ○)+10% (Wage ×)+2%

Example of Regulations

Clean Power Production Proportionality Tax Credit (45Y)

- **Only electricity produced in the U.S. is eligible.**
- **Deduction**: 0.3 cents/kWh (1.5 cents/kWh if (1) **output requirement of** 1 MW or more **and** (2) **wage and apprenticeship** requirements are met)
- **Bonus**: **Mined, produced, or manufactured domestically※ above a certain level of components → 1.1 times the deductible amount.**

  Solar: **40% of** production before Jan. 2025 (phased in to **55%** after Dec. 2026)

  Wind power: **20% of** production before January 2025 (phased in to **55%** after December 2027).

  (If domestic production of steel, iron, etc. results in a total cost increase of 25% or more, or if sufficient quality and quantity cannot be reasonably secured domestically, the exemption shall apply.)

(Source: METI, "Status of Investment Promotion Policies in Other Countries", p. 28 (partially edited))

ENERGY COMMUNITY COMPONENT

The following is a summary of the "Energy Community" column listed in the IRA Major Tax Measures Table. "Energy Communities" refers to regions where industries related to fossil fuels, such as coal, were once dominant. This initiative allocates preferential support to such regions through additional tax credits for renewable energy, clean power, and advanced energy projects in those regions, with the aim of providing incentives for the transition to clean energy.

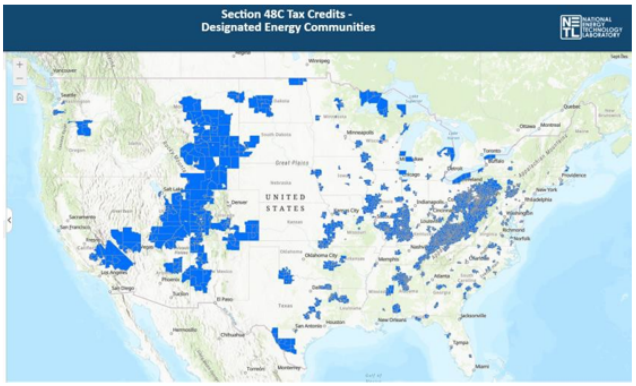
<Energy Communities: Areas where Coal and Other Fossil Fuel Related Industries Were Dominant>

Areas that meet one of the following criteria

i. Industrial sites that are no longer used (due to environmental pollution or other reasons)

ii. Areas with more than 0.17% direct employment or more than 25% local tax revenue related to the extraction, processing, transportation, and storage of coal, oil, and natural gas, and with an unemployment rate higher than the national average unemployment rate for the previous year.

iii. Closed coal mines since the end of 1999 or coal-fired power plants since the end of 2009, or areas adjacent to these areas



<Allocation of Preferential Support>

Investment Tax Credit and Advanced Energy Projects (48C)
Of the additional $100 billion in support allocated by the IRA, **more than $40 billion will be allocated to Energy Communities.**

<Additional Investment Tax Credit>

Investment Tax Credit Renewable Energy/Clean Power (48/48E)
Investment in Energy Communities and fulfillment of wage provisions will result in an additional 10% deduction rate.
※If wage requirements are not met, 2% will be added. Wage and apprenticeship requirements (deduction rate 5 times) are specified separately.

Production Proportionate Tax Credit Renewable Energy / Clean Power (45 / 45Y)
When production is carried out within an energy community, the deduction amount is increased by 10% (1.1 times the deduction amount).

DOE "48C designated energy communities map" https://www.energy.gov/infrastructure/qualifying-advanced-energy- project-credit-48c-program

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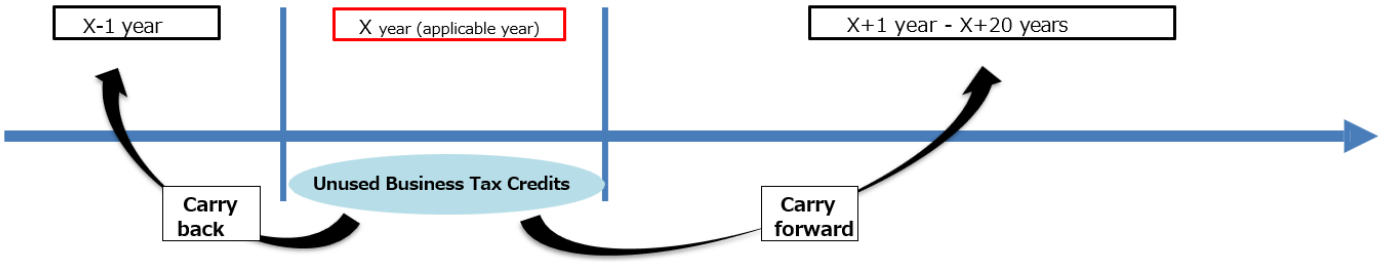
(Source: METI, "Status of Investment Promotion Policies in Other Countries", p. 30 (partially edited))

TAX CREDIT CARRYOVER

The following diagram summarizes the contents of the "Tax Credit Carryover" column in the IRA Major Tax Measures Table. This system allows for the "Carryback" and "Carryforward" of unused business tax credits when the amount of tax credits applied to deficits or income exceeds the taxable income for the relevant fiscal year. Carryback is permitted for one year, and Carryforward is permitted for 20 years.

<Overview>



<Main Tax Systems that Allow Carryover and Carryback of Unused Business Tax Credits>
(A wide range of Tax Credits are available, including the following Tax Credits)

(Field)	Research and Development	Capital Investment	Human Investment
Cases	R&D Tax Credit	Clean Hydrogen Production Tax Credit (for IRAs)	Job Opportunity Tax Credit
	Carbon Sequestration Tax Credit (for IRAs)	Advanced Manufacturing Production Tax Credit (for IRAs)	Disability Employment Tax Credit
	New Clean Car Tax Credit	Renewable Energy Generation Tax Credit	Employee Social Security Tax Credit
	Orphan Drug Tax Credit	Railroad Maintenance Expense Tax Credit	Small Business and Startup Pension Expense Tax Credit
	New Energy Efficiency Housing Tax Credit	Advanced Nuclear Power Equipment Production Tax Credit	Welfare Child Care Expense Tax Credit

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(Source: METI, "Status of Investment Promotion Policies in Other Countries", p. 33 (partially edited))

TRANSFER OF TAX CREDIT

The column labeled "Tax Credit Transfer" in the IRA Major Tax Measures Table refers to the transfer of tax credits for certain types of businesses or investments, and is summarized below. Under this system, companies which pay little tax and cannot fully utilize tax credits are able to enjoy benefits equivalent to tax credits by transferring their tax credits to third parties in exchange for cash.

Summary

- The entire amount of the Tax Credit, or a specified portion of it, **may be transferred only to unrelated parties.** (Transfers to related parties (more than 50% capital relationship) are not permitted.)
- **The transfer must be made in exchange for cash.**
- The Tax Credit is **not deductible as income for the seller** and **is not deductible as a loss for the buyer**.
- **Tax Credits can only be transferred once, and once transferred, the Tax Credits cannot be transferred again.**
- **Direct Payment Entities** (Tax-exempt Entities/States or their Subdivisions/Tennessee Valley Authority/Indian Tribal Governments/Alaska Native Corporation) may **not elect to transfer the Tax Credit**.
- Taxpayers must elect the transfer by **the due date of the tax return for the taxable year in which the Tax Credit is determined.**

Eligible Tax Schemes (Most Investment and Production Proportional Tax Credits for IRAs)

		Tax Credit	IRC	Tax Credit Carry Forward	Tax Credit Transfer	Direct Payment
Investment	Power Generation	Renewable Energy Projects Investment	48	○	○	△
		Clean Power Investment	48E	–	○	△
	Manufacturing	Advanced Energy Project	48C	○	○	△
	Other	Fuel Supply Facilities for Alternative Fuel Cars	30C	Partially	○	△
Production Proportion	Power Generation	Renewable Energy Electricity Production	45	○	○	△
		Clean Electricity Production	45Y	–	○	△
		Zero-emission Nuclear Power Production	45U	–	○	△
	Manufacturing	Advanced Manufacturing Production (Solar Power, Wind Power Generation, Inverters, Batteries, Critical Minerals)	45X	○	○	○
	Fuel	Clean Fuel Production	45Z	–	○	△
		Clean Hydrogen Production	45V	○	○	○
	Other	Carbon Sequestration Production	45Q	○	○	○

(Source: METI, "Status of Investment Promotion Policies in Other Countries" p. 36 (partially edited))

DIRECT PAYMENT OF TAX CREDITS

The column labeled "Direct Payment" in the IRA Major Tax Measures Table refers to the direct payment system for tax credits, which is summarized in more detail in the table below. This is a system whereby, for the first five years of a project during which there is no cash inflow, even if there is no tax liability, the amount of the tax credit can be received as a "Direct Payment". As indicated below, advanced manufacturing production (solar power generation, wind power generation, inverters, batteries, and critical minerals), clean hydrogen production, and carbon sequestration production have been made eligible to utilize this Direct Payment system.

12 Tax Programs Eligible for Direct Payments (3 of which can also be used by taxing authorities)

		Tax Credit	Type	IRC	Applicable Scope	Conditions for Application
Investment	Power generation	Renewable Energy Projects Investment	Investment	48	△	—
		Clean Power Investment	Investment	48E	△	—
	Manufacturing	Advanced Energy Project	Investment	48C	△	—
	Other	Fuel Supply Facilities for Alternative Fuel Cars	Investment	30C	△	Up to a certain portion
Production Proportion	Power Generation	Renewable Energy Electricity Production	Production Proportion	45	△	Facilities in operation on or after 12/31/2022
		Clean Electricity Production	Production Proportion	45Y	△	—
		Zero-emission Nuclear Power Production	Production Proportion	45U	△	—
	Manufacturing	Advanced Manufacturing Production (Solar Power, Wind Power Generation, Inverters, Batteries, Critical Minerals)	Production Proportion	45X	○	—
	Fuel	Clean Fuel Production	Production Proportion	45Z	△	—
		Clean Hydrogen Production	Production Proportion	45V	○	Facilities in operation on or after 12/31/2012
	Others	Carbon Sequestration Production	Production Proportion	45Q	○	Facilities in operation on or after 12/31/2022
Purchase Assistance		Commercial Cars Tax Credit	Purchase Assistance	45W	△	—

(*Those marked with "△" are limited to the following.
Tax-exempt Entities / States or their Subdivisions / Tennessee Valley Authority / Indian Tribal Governments / Alaska Native Corporations / Cooperatives that provide electricity to rural areas 37

(Source: METI, "Status of Investment Promotion Policies in Other Countries" p. 37 (partially edited))

OVERVIEW OF THE "ONE BIG BEAUTIFUL BILL ACT"

As mentioned above, President Trump signed the OBBBA into law on July 4, 2025. The OBBBA includes, among others, provisions to eliminate the expiration date (end of 2025) for the previous tax cuts enacted by President Trump in December 2017 under the Tax Cuts and Jobs Act (i.e., (i) corporate tax rates were reduced from 35% to 21%, (ii) income tax rates were reduced from 39.6% to 37%, (iii) estate and gift tax exemption was nearly doubled), exempt tips and overtime pay received by restaurant workers from taxation for a certain period, increase funding for border security, and tighten the medical insurance system for low-income individuals.

The OBBBA also provides for reductions or other changes to certain tax credits and other tax benefits made available to climate change countermeasure projects under the IRA. Below is a general overview of some of the key revisions being applied by the OBBBA to tax benefits available under the IRA to projects in the US energy sector.

Investment Tax Credit		IRC	Primary Target Examples	Prior IRA Regulations	Revisions under OBBBA
Power Generation	Clean Power	48E	Solar and Wind Power Generation Facility, Energy Storage Technology, Fuel Cells	Gradually reduce tax credits for facilities that begin construction on or after the year immediately following: (i) 2033, or (ii) the year that is one year after the year in which the US emission reduction target is achieved, whichever is later.	Solar and wind power generation facilities must commence construction within one year of the OBBBA's enactment (by July 4, 2026), and the tax credits will apply to facilities that begin operation by the end of 2027.
Production Proportionate Tax Credit		**IRC**	**Primary Target Examples**	**Prior IRA Regulations**	**OBBBA Revisions**
Power Generation	Clean Power	45Y	Solar Power, Wind Power, Geothermal Power, Nuclear Power	Gradually reduce tax credits for facilities that begin construction on or after the year immediately following: (i) 2033, or (ii) the year that is one year after the year in which the US emission reduction target is achieved, whichever is later.	Gradually reduce tax credits for clean power generation facilities constructed in 2034 and thereafter. Solar and wind power facilities must begin construction within one year of the OBBBA's enactment (by July 4, 2026) or be operational by the end of 2027 to be eligible for the tax credits. For certain advanced types of nuclear power generation, if the facility is located in an area enhancing significant nuclear-related employment (nuclear energy community), a new 10% bonus credit is available.
Manufacturing	Advanced Manufacturing	45X	Solar panels, Wind Turbines, Battery Components, Semiconductors, Inverters, Critical Minerals	Applicable to assets produced and sold by 2032, with deductions gradually reduced after 2030.	Wind power-related components will be eligible for tax credits on assets produced and sold by the end of 2027. For solar panel components and battery components, the IRA remains in effect.

					For critical minerals, the deduction will not be gradually reduced until the end of 2030, but will be gradually reduced from 2031 and end at the end of 2033. Metallurgical coal is added to the list of critical minerals and tax credits will apply until the end of 2029.
Fuel	Clean Fuel	45Z	Biofuels, Sustainable Aviation Fuels (SAF), Renewable Diesel	Applicable to production and sales through the end of 2027.	Tax credits to production and sales will be applied through the end of 2029. Restrictions will be introduced on the use of raw materials not produced in the United States, Canada, or Mexico after 2025.
	Clean Hydrogen	45V	Clean Hydrogen	Applicable to production by facilities whose construction began by the end of 2032.	Tax credits will be applied to production by facilities whose construction begins by the end of 2027. No restrictions on Prohibited Foreign Entities, etc.
Other	Carbon Sequestration (Collection Proportional)	45Q	Carbon Capture and Storage Equipment	Applicable to facilities whose construction began by the end of 2032.	Tax credits are available for projects that start construction by the end of 2032. The deduction rate for EOR (Enhanced Oil Recovery), which was previously low, will be raised to the same level as CCS (carbon capture and storage).

In addition to the matters listed in the above table, we summarize below several other noteworthy changes to the IRA being introduced by the OBBBA in relation to the US energy sector:

- The tax credit for advanced energy projects manufacturing (IRC 48C) targeting the construction or renovation of facilities for renewable energy power generation facilities, batteries, carbon sequestration, clean hydrogen electrolysis equipment, ammonia manufacturing equipment, and other production facilities for critical minerals will be canceled if the project does not commence within two years after the allocation of the credit amount.
- The deadline to apply for the tax credit recognized for the installation costs of infrastructure for electric vehicles (EVs) and hydrogen refueling facilities (IRC 30C) has been moved up from December 31, 2032, to June 30, 2025.
- The "special rate" of the credit currently available for SAF (i.e., up to $1.75 per gallon) will be eliminated by capping the value of the credit at $1 per gallon for all eligible fuels, including SAF. This change would limit the IRC 45Z tax credit available with respect to SAF produced after December 31, 2025[5].
- "Prohibited Foreign Entities" (i.e., a Specified Foreign Entity or Foreign-Influenced Entity, as defined in 7701(a)(51)) and businesses having significant relationships with Prohibited Foreign Entities will be prohibited from claiming certain tax credits relating to energy projects. If a renewable fuel project is owned by a Prohibited Foreign Entity, the tax credit under IRC 45Z is not allowed. In addition, if a project receives "significant support" from a Prohibited Foreign Entity, the tax credit under IRC 45Z will not be allowed. Furthermore, tax credits for battery manufacturing owned or involved in the establishment of Prohibited Foreign Entities will be restricted.
- The system for transferring tax credits will be maintained, but the transfer of certain tax credits to Specified Foreign Entities will be prohibited.

For further details regarding the OBBBA, please refer to our recent Client Alert titled "One Big Beautiful Bill Act" (July 31, 2025) (https://www.kslaw.com/news-and-insights/one-big-beautiful-bill-act).

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5 For further details, please refer to our Client Alert titled ("United States Congress and EPA Target Domestic Renewable Fuel Growth with RFS Set 2 Rule and Revised Section 45Z Tax Credit" (July 10, 2025) (https://www.kslaw.com/news-and-insights/united-states-congress-and-epa-target-domestic-renewable-fuel-growth-with-rfs-set-2-rule-and-revised-section-45z-tax-credit)).