CLEARPATH ACTION

Carbon Utilization Parity Act (S.542/H.R.1262)

The Carbon Utilization Parity Act increases the Section 45Q tax credit for carbon capture and utilization to match incentives for carbon capture and sequestration for both direct air capture (DAC) and the power and industrial sectors.

Summary

Carbon utilization is the conversion of captured carbon to produce commercial products, such as low- and zero-emissions transportation fuels and building materials like cement. The Carbon Utilization Parity Act establishes an even playing field for carbon innovators and enables further investment in carbon capture utilization technologies. Carbon capture is widely recognized as a critical emissions reduction technology, and removing barriers to implementing this technology will lead to more widespread adoption. The legislation would support carbon utilization technologies and products that are not yet cost-competitive under current credit values, reducing barriers to market entry by matching credit levels to that of geologic sequestration under the 45Q tax credit.

History:

Congress first established the bipartisan 45Q incentive as part of the Energy Improvement and Extension Act of 2008. Over the next decade, it became clear that the incentive was not driving the level of investment and innovation that policymakers envisioned, leading to a bipartisan effort to make the credit more attractive for private investment. In 2018, Congress updated 45Q, increasing the credit value, lowering capture eligibility thresholds, and allowing DAC to be eligible for the incentive. The industry experienced additional gains when the bipartisan Energy Act of 2020 extended 45Q by an additional two years. Most recently, under the 2022 tax credit package, the 45Q credit values were once again increased to levels that would encourage the widespread build-out of carbon capture technologies for both traditional carbon capture and DAC. However, during this partisan process, carbon capture utilization was not raised to the level of geologic sequestration.

Specifics:

The Carbon Utilization Parity Act modifies the existing 45Q tax credit to unlock the long-term market benefits of and wider investment in carbon utilization technologies. Specifically, the Act:

- Raises the 45Q tax incentive for utilization to $85/ton for carbon utilized that was generated by either the power or industrial sectors and $180/ton for carbon utilized that was captured through DAC, creating parity with the current sequestration values.
- Maintains the enhanced oil recovery credit value.

Original Sponsors:

S. 542
Sen. Sheldon Whitehouse (D-RI)
Sen. Bill Cassidy (R-LA)

H.R. 1262
Rep. David Schweikert (R-AZ)

Rep. Terri Sewell (D-AL)

COSPONSORS: Rep. Wesley Hunt (R-TX), Rep. Carol Miller (R-WV)

SUPPORT: ClearPath Action, Carbon Capture Coalition, BPC Action, Baker Hughes, Blue Planet Systems, LanzaTech, Occidental, National Wildlife Foundation, CarbonCapture Inc., CarbonFree

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