

House Passes One Big Beautiful Bill: Implications for Clean Energy Incentives

On May 22, 2025, the House of Representatives passed legislation known as the One Big Beautiful Bill (the “Bill”). The Bill passed by a single vote and will now be sent to the Senate. Under the Senate’s “reconciliation” rules, such legislation can be passed by a simple majority vote and sent to President Trump to be signed into law, however, the Senate is expected to propose modifications to the clean energy-related provisions of the Bill. The Bill covers a broad range of topics, and notably includes significant cuts to clean energy tax credits made available under the Inflation Reduction Act of 2022 (the “IRA”) and elimination of funding for certain federal grant and loan programs under the IRA that support clean energy projects.

KEY CHANGES TO CLEAN ENERGY TAX CREDITS

The Bill substantially pares back the existing clean energy tax credit regime by accelerating the termination of a number of credits, repealing transferability and imposing additional foreign entity-related restrictions.

Termination of Credits

Under the IRA, the majority of the clean energy tax credits were set to terminate between 2027 and 2032, with a few credits phasing out beginning in 2030 or 2032 (or later if the IRA-mandated emissions reduction target was not met). However, under the Bill, many of these tax credits would be terminated at a much earlier point in time, often without a phase-out period. The availability of the clean energy tax credits going forward would be limited to the following:

- Section 48E & 45Y Credits: Clean electricity projects that begin construction within 60 days of enactment of the Bill and are placed in service by the end of 2028 would remain eligible for clean electricity investment and production tax credits,

with the exception of advanced nuclear facilities, which must begin construction before the end of 2028 and are not subject to the “same placed in service” limitation;

- Section 45X Credit: Wind energy components that are sold before the end of 2027 and non-wind energy components that are sold before the end of 2031 would remain eligible for the advanced manufacturing production credit;
- Section 45U Credit: Electricity produced and sold by qualifying nuclear facilities before the end of 2031 would remain eligible for the zero-emission nuclear power production credit;
- Section 45V Credit: Hydrogen projects that begin construction before the end of 2025 would remain eligible for the clean hydrogen production credit; and
- Section 48 Credit: Geothermal heat pumps for which construction begins before the end of 2031 would remain eligible for the legacy energy property investment credit.

The Section 45Z clean fuel production credit would continue, and the Bill would actually extend the

scheduled termination date for this credit by an additional four years to the end of 2031. However, credits for fuel sold after the end of 2025 would only be available for fuels derived from feedstocks produced or grown in the United States, Mexico or Canada. In addition, the Section 45 and 48 legacy investment and production credits (which required construction to have commenced by the end of 2024) are unchanged except for with respect to geothermal heat pumps as mentioned above.

Foreign Entity of Concern (“FEOC”) Restrictions

The Bill would impose additional restrictions around the involvement of certain foreign entities for certain clean energy tax credits.

- Entity-Specific Restrictions: The majority of the clean energy tax credits would not be available for any taxable year following enactment of the Bill if the claiming taxpayer is a Specified Foreign Entity (“SFE”). An SFE would include designated foreign terrorist organizations, Chinese military companies operating in the U.S., entities on the Uyghur Forced Labor Prevention Act Entity List, certain Chinese battery and energy storage manufacturers and certain foreign-controlled entities (which would cover companies with ties to China, Iran, North Korea or Russia). In addition, most tax credits would not be available for any taxable year beginning two years after enactment of the Bill if the claiming taxpayer is a Foreign-Influenced Entity (“FIE”). An FIE would include any entity over which an SFE has significant influence, such as appointing certain officers or holding an ownership stake or debt interest, or receiving dividends from such FIE in excess of a specified threshold.
- Project-Specific Restrictions: Certain tax credits would not be available for projects that are facilitated by material assistance from, or components that are produced under a licensing agreement with, a Prohibited Foreign Entity (“PFE”). A PFE would include any entity that is an SFE or an FIE.

- Payment-Specific Restrictions: Certain tax credits would not be available for any taxable year beginning two years after enactment of the Bill if the claiming taxpayer makes certain payments to any PFEs in excess of a specified threshold. In addition, to the extent a taxpayer makes any such payments within the first ten years after a project is placed in service, any credit claimed in the year of such payment would be clawed back.

Repeal of Transferability

At present, taxpayers are generally permitted to transfer clean energy tax credits to unrelated third parties. The Bill would repeal transferability as follows:

- Section 48E, 45Y, 45Q & 48 Credits: For the clean electricity investment and production credits, carbon oxide sequestration credits and legacy energy property investment credits for geothermal heat pumps, transferability would be repealed for projects that do not begin construction within two years of enactment of the Bill;
- Section 45X, 45U & 45Z Credits: Transferability would be repealed for the advanced manufacturing production credit, zero-emission nuclear power production credit and clean fuel production credit after the end of 2027; and
- Section 45V Credit: No clean hydrogen production credits would be transferable for any taxable year following enactment of the Bill.

Please refer to the table at the end of this memo for a summary of the changes under the Bill for each of the above-mentioned clean energy tax credits.

KEY CHANGES TO CLEAN ENERGY GRANT & LOAN PROGRAMS

The Bill would also rescind unobligated funds from 26 sections of the IRA and, in some cases, repeal the underlying IRA provision. This would put an end to several major federal grant and loan programs for clean energy that are currently being implemented by the Department of Energy, the Environmental Protection Agency and the Federal Energy Regulatory Commission, including funding for, among others, energy-efficient projects, energy infrastructure reinvestment, low or zero greenhouse gas emission vehicle manufacturing, the Tribal Energy Loan Guarantee Program, transmission

facility financing, investment in clean industrial facilities and the Greenhouse Gas Reduction Fund.

CONCLUSION

The Bill dramatically reshapes clean energy policy by terminating clean energy tax credits early, repealing transferability for many tax credits and adding complicated restrictions related to foreign entities. It also cuts a number of federal grant and loan programs intended to support clean energy projects. It remains to be seen how the Bill will fare in the Senate, where prospects remain uncertain given the chamber's narrow margins and the fact that a number of Republican Senators have indicated disagreement with the House approach to paring back the clean energy tax credits.

SUMMARY OF CHANGES TO CLEAN ENERGY TAX CREDITS UNDER THE IRA

The table below sets out a summary of the changes under the Bill for each of the above-mentioned clean energy tax credits.

TAX CREDIT	CURRENT LAW	CHANGES UNDER THE BILL
Section 48E Clean Electricity Investment Credit	No phase-out until 2032 (or later if emissions reduction target not met) No end date for transferability No FEOC restrictions	Terminated except for (i) projects beginning construction within 60 days of enactment and placed in service by end of 2028 and (ii) advanced nuclear facilities beginning construction before the end of 2028 (no “placed in service” limitation) Transferability repealed for projects not beginning construction within two years of enactment Entity-, project- and payment-specific FEOC restrictions
Section 45Y Clean Electricity Production Credit	No phase-out until 2032 (or later if emissions reduction target not met) No end date for transferability No FEOC restrictions	Terminated except for (i) projects beginning construction within 60 days of enactment and placed in service by end of 2028 and (ii) advanced nuclear facilities beginning construction before the end of 2028 (no placed in service limitation) Transferability repealed for projects not beginning construction within two years of enactment Entity-, project- and payment-specific FEOC restrictions
Section 45X Advanced Manufacturing Production Credit	No phase-out until 2030 No end date for transferability No FEOC restrictions	Terminated except for (i) wind energy components sold before end of 2027 and (ii) non-wind energy components sold before end of 2031 (subject to a phase-out beginning in 2030) Transferability repealed for components sold after end of 2027 Entity-, project- and payment-specific FEOC restrictions
Section 45Q Carbon Oxide Sequestration Credit	Terminated at end of 2032 No end date for transferability No FEOC restrictions	Termination date remains unchanged Transferability repealed for projects not beginning construction within two years of enactment Entity-specific FEOC restrictions
Section 45U Zero-Emission Nuclear Power Production Credit	Terminated at end of 2032 No end date for transferability No FEOC restrictions	Terminated except for electricity produced and sold before end of 2031 Transferability repealed for electricity produced and sold after end of 2027 Entity-specific FEOC restrictions

TAX CREDIT	CURRENT LAW	CHANGES UNDER THE BILL
Section 45Z Clean Fuel Production Credit	<p>Terminated at end of 2027</p> <p>No end date for transferability</p> <p>No FEOC restrictions</p>	<p>Terminated at end of 2031; however, for fuel sold after end of 2025, credit only available for fuels derived from feedstocks produced or grown in the United States, Mexico or Canada</p> <p>Transferability repealed for fuel produced after end of 2027</p> <p>Entity-specific FEOC restrictions</p>
Section 45V Clean Hydrogen Production Credit	<p>Terminated at end of 2032</p> <p>No end date for transferability</p> <p>No FEOC restrictions</p>	<p>Terminated except for projects beginning construction before end of 2025</p> <p>Transferability repealed after end of the year of enactment</p> <p>No FEOC restrictions</p>
Section 48 Legacy Investment Credit	<p>Terminated at end of 2024 except for geothermal heat pumps beginning construction before end of 2034</p> <p>No end date for transferability</p> <p>No FEOC restrictions</p>	<p>Termination at the end of 2024 except for geothermal heat pumps beginning construction before end of 2031 (subject to a phase-out beginning in 2030)</p> <p>Transferability repealed for geothermal heat pumps not beginning construction within two years of enactment</p> <p>Entity-specific FEOC restrictions</p>
Section 45 Legacy Production Credit	<p>Terminated at end of 2024</p> <p>No end date for transferability</p> <p>No FEOC restrictions</p>	<p>Termination date remains unchanged</p> <p>Transferability remains unaffected</p> <p>No FEOC restrictions</p>

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