

The Risks and Benefits for the IRA's 45Q, 45Z

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The Inflation Reduction Act (IRA) expands the tax credits and other financial incentives available for energy transition and renewable energy projects, which has spurred investment in carbon capture, utilization and storage (CCUS) projects. There are three important legal considerations related to the interaction of Sections 45Z and 45Q under the IRA; however, it is important to recognize that additional credits and tax implications at the federal and state level may also apply.

Section 45Q of the IRA provides tax credit for qualified carbon oxide (COx) captured and either securely stored in underground geological formations or reused for specified purposes. The credits may be claimed by the taxpayer who owns the carbon capture equipment and ensures (whether physically or contractually) the capture and disposal or utilization of the COx. 45Q credits are available to a qualifying CCUS project or 12 years, beginning when the equipment is placed in service.

Section 45Z of the IRA provides a tax credit for production of low-emissions transportation fuels, including low-carbon ethanol, biodiesel and sustainable aviation fuels. The credits apply to fuels produced and sold from Dec. 31, 2024, through Dec. 31, 2027, and may be claimed by the taxpayer who owns the fuel production plant.

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