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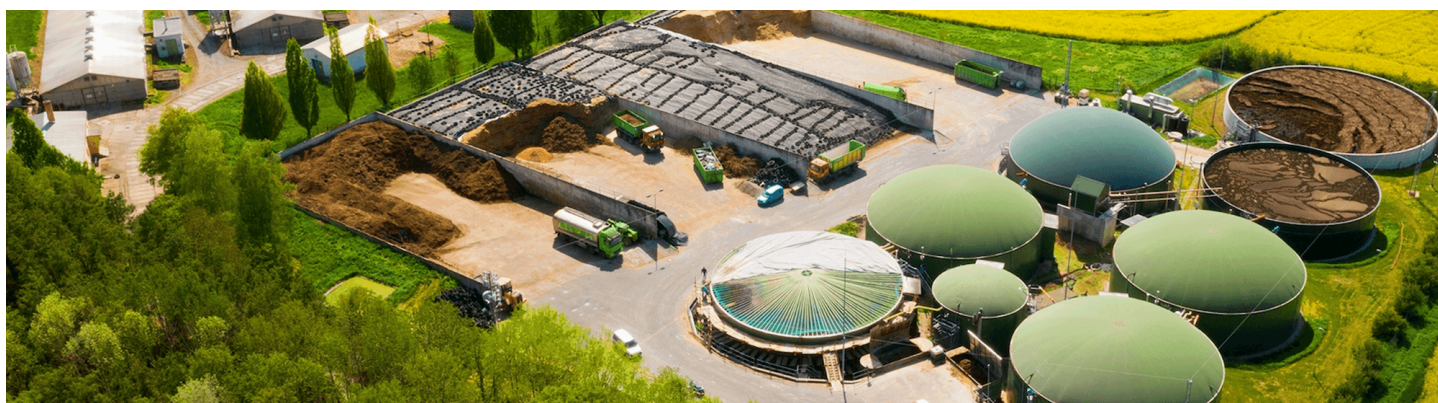
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IRS releases new proposed 45Z regulations

February 3, 2026



This morning, the US Department of the Treasury and the Internal Revenue Service (IRS) released [proposed regulations](#) implementing the §45Z clean fuel production credit as amended in last year's One Big Beautiful Bill (OBBB). The credit applies to domestically produced transportation fuels sold between 2025 and 2029, with the value determined by a fuel's lifecycle greenhouse gas (GHG) emissions. In addition to extending the life of the credit through 2029 (previously through 2027), OBBB introduced changes including: changes to how lifecycle emissions are calculated; restrictions on the use of **feedstocks** produced or grown outside of the U.S., Canada, and Mexico; and prohibitions on certain foreign entities claiming the credit.

[For more information on the market for §45Z tax credits, see Crux's detailed blog post.](#)

The §45Z tax credit creates a base \$0.20/gallon tax credit (\$1.00/gallon for producers meeting prevailing wage and apprenticeship requirements) for the production and sale of

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have been eagerly awaiting additional guidance. Industry estimates for total §45Z eligible fuel supply implies \$2-\$3 billion in annual tax credit generation, suggesting that significant volume remains unsold in the market.

Crux's tax credit deal database suggests that pricing is generally between \$0.88 and \$0.93 per dollar of tax credits, a discount of 7– 12% from face value. Deals are also typically insured, meaning that the tax credit buyer is protected from tax risks by an [insurance policy](#) procured and paid for by the seller. Some key uncertainties (largely resolved by the proposed rule) have been excluded from insurance policies and indemnified by the selling company. Smaller companies, or RNG producers where the scope of uncertainty is more pronounced, generally have faced barriers transacting in the absence of clear tax credit guidance.

The proposed rule is in line with the Treasury and the IRS' prior [notice of intent](#) to propose regulations, with important clarifications of key issues. The proposed rule also includes technical changes to ensure §45Z conforms with other areas of tax law, including transferability. As a proposed rule, a public comment period will be open for a period of two months, after which Treasury and the IRS will move to finalize a rule considering stakeholder input.

Key issues addressed in the proposed regulations

Lifecycle calculations

Under the statute, §45Z eligibility is tied to lifecycle carbon intensity calculations in the Greenhouse gases, Regulated Emissions, and Energy use in Technologies, or [GREET](#), model. There are several different GREET models for specific tax credits, including the 45ZCF-GREET, which was published by the US Department of Energy (DOE)

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...producers have sought an update to the currently 2025 45ZCF-GREET model, which sets an effective floor for manure RNG CI scores at around -31 kg of CO₂e per MMBtu. Many RNG producers expect that updates to GREET will generate a lower CI score, which in turn produces a higher credit value per gallon of fuel. Alternatively, RNG producers may use the provisional emissions rate (PER) process discussed later in this post.

The proposed §45Z rule does not include an update to 45ZCF-GREET. It makes clear that the emissions rate for the fuel is determined by the 45ZCF-GREET model and the emissions-rate table in effect when the fuel was produced, meaning that the emissions rate could change each year for the same fuel from the same facility when the Treasury Secretary publishes the annual update to the emissions-rate table. If the GREET model includes a pathway, the taxpayer must use the emissions rate associated with that pathway.

Other GREET model specifications

One input into 45ZCF-GREET is the carbon intensity of agricultural feedstocks. The US Department of Agriculture (USDA) published a beta version of its USDA Feedstock Carbon Intensity Calculator (USDA FD-CIC) in January 2025 to calculate practices like no till, reduced till, cover crops, and nutrient management. The model is not expected to be finalized until later in 2026; however, the proposed rule states that Treasury and the IRS “anticipate that 45ZCF FD-CIC may be used for fuel produced and sold in 2025”. When the USDA’s model is finalized, the proposed rule indicates IRS expects to incorporate a version into 45ZCF-GREET.

Notably, for purposes of accounting for emissions associated with hydrogen, natural gas alternatives, electricity, and carbon capture and sequestration, the proposal states that rules similar to the rules under [§45V](#) apply (unless otherwise specified by the 45ZCF-GREET model).

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45ZCF-GREET does not cover every pathway that could qualify.

For eligible fuels that do not have an emission rate established in 45ZCF-GREET, the proposal creates a process for taxpayers to file a petition with the Treasury Secretary for a PER based on the type and category of fuel. The DOE [proposed a process for §45Z PER applications](#) in July 2025, but this has not been finalized. As proposed, the PER process requires filing a petition with the Treasury Secretary. The taxpayer must first submit a request to the DOE for an emissions value for an eligible fuel. Once the DOE issues a calculated emissions value letter, the taxpayer can file a PER petition.

Although the proposal outlines the high-level process, additional guidance from the IRS and DOE will be required. The proposed guidance does indicate that sections of a Class 3 front-end engineering and design (FEED) study (or similar indicator of project maturity) will generally be required.

Qualified sales to intermediaries

The proposed regulations specify that sales to fuel intermediaries — wholesalers and dealers that resell fuel — qualify as "sold for use in a trade or business." This is a significant departure from the Notice 2025-10 draft that included "use as a fuel" language, which created uncertainty regarding whether sales to fuel intermediaries were qualified sales under the rule.

Prior to this rule clarification, tax insurers typically excluded coverage for the qualified sale issue, forcing sponsors to provide indemnities to tax credit buyers. The proposed rule explicitly states that sales to intermediaries "includes the sale of fuel to an unrelated person that subsequently resells the fuel in its trade or business," largely mitigating the uncertainty. The only carved-out exceptions are sales for blending and sales to retailers that place fuel directly in consumer tanks.

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Transportation end use vs. “suitable use”

The proposed rule clarifies that fuel qualifies for the §45Z credit as long as it is “suitable for use as a fuel in a highway vehicle or aircraft,” but “[t]he proposed regulations would also clarify that actual use as a fuel in a highway vehicle or aircraft is not required.” A fuel would be suitable for use if it has practical and commercial fitness for use as a fuel in a highway vehicle or aircraft, or may be blended into a fuel mixture that has practical and commercial fitness for use as a fuel in a highway vehicle or aircraft. (Possible or rare use as a fuel alone does not qualify.)

Although the proposed rule would exclude electricity from the definition of “transportation fuel,” the definition of suitable for use would not disqualify otherwise eligible transportation fuel that is ultimately used to produce electricity.

Avoiding double-crediting

To prevent double-crediting of the same fuels, the OBBB amended §45Z to exclude from the definition of a “transportation fuel” any fuel “produced from a fuel for which a section 45Z credit is allowable.” The proposed rule would define the term “produced from a fuel for which a section 45Z credit is allowable” to mean that a fuel has a primary feedstock that meets the definition of a transportation fuel under §45Z.

This rule would mean that only the first transportation fuel in a production chain qualifies for the credit. Thus, if one fuel is used as a primary feedstock to produce a second fuel, and the first fuel qualifies as a transportation fuel for the purposes of §45Z, the second fuel would not qualify. However, a fuel could still qualify for a §45Z credit if its production process uses a transportation fuel solely as a process fuel or other non-primary-feedstock input.

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verification standards.

In particular, Treasury and the IRS request comment on:

- Substantiation and recordkeeping requirements for feedstocks imported from Canada and Mexico.
- Industry practices to track feedstock source(s) that would mitigate potential taxpayer burden while being administrable for the IRS (e.g., existing business records that demonstrate feedstocks exclusively produced in Canada or Mexico did not contain other feedstocks or additives that originated outside of Canada or Mexico).
- Approaches to determine the underlying source(s) of used cooking oil (UCO) for purchases from aggregators of UCO (e.g., reliable methods that would indicate the geographic location where seeds originated or crops were grown as a precursor for use as cooking oil).

Producer and facility definitions

The proposed rule confirms that a taxpayer can claim the §45Z credit if the fuel is produced at a qualified US facility, by a registered producer, and sold in a qualifying sale. Treasury generally treats the “producer” as the taxpayer that produces the transportation fuel and is properly registered under the excise tax regime, and it ties credit determination and transferability to the qualified facility itself, requiring facility-level registration and treating the facility as the relevant unit for §6418 transfers. The guidance clarifies that the taxpayer is not required to own the facility, however, just “conduct the activities giving rise to the section 45Z credit.”

Additionally, the proposed guidance also allows a facility qualifying under §45Z to “be co-located with another credit-eligible facility, and that some production equipment may be located upstream or downstream from, or in a different building than, other equipment.”

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transfer of the §45Z clean fuel production credit. Notable items include:

- **Transferability is tied to the facility, not just the taxpayer.** For §45Z, the relevant credit property is the qualified facility itself.
- **IRS pre-filing registration is required.** Each facility must obtain an [IRS registration number](#) annually before a credit can be transferred, aligning §45Z compliance with other transferable credits.
- **No retroactive elections.** Transfers must be elected on the original filed return, with no amended-return flexibility, similar to other transferable credits. This requires producers to execute transactions by their tax-filing deadline (up to the extended annual filing deadline).
- **Multiple transferees.** Treasury clarifies that multiple transferees can benefit from the sale of a credit, supporting syndication and market liquidity.

Recordkeeping and safe harbors

The proposed rule lays out specific records and data that must be kept to verify the credit, and includes two safe harbors.

Producers must keep all records:

- Establishing that each fuel produced is a transportation fuel.
- Establishing any relevant information relating to the primary **feedstock**(s) used to produce each fuel.
- Establishing that each fuel meets any fuel-specific specifications.
- Substantiating how the emissions rate for each fuel was determined (including, if applicable, the specific type(s) and category(ies) under the applicable emissions-rate table).
- Relating to any fuel testing obtained by the taxpayer.

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- Establishing that each fuel was sold in a qualified sale.
- Establishing any certification from an unrelated person and substantiating the information contained therein.
- Related to information and raw data used for or related to any petition for a PER.
- Establishing that the taxpayer satisfies the prevailing wage and apprenticeship requirements, if applicable.

Treasury and the IRS specifically request comments on the kind of documents that taxpayers can use, including to prove the proper determination of a fuel's emissions rate.

Safe harbors include:

- Substantiating the emissions rate for a fuel using the 45ZCF-GREET model by obtaining a certification as described in § 1.45Z-5.
- Substantiating whether the sale of a transportation fuel is a qualified sale for purposes of §45Z by obtaining from the buyer of the fuel a certificate (model certificate provided in the credit under § 1.45Z4(g)(3)(ii)).

What happens next?

The §45Z proposal confirms Treasury's intent to implement a GREET-centered clean fuels credit through 2029. Central focus areas for stakeholder comments ahead of finalization will likely include: PER mechanics, feedstock verification, and additional definitional clarity.

The public comment deadline runs through April 6, 2026, 60 days after rules are [officially published](#) in the Federal Register. The link to submit comments will be on the link above when it is published in the Federal Register.

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Crux will continue to provide updates and analysis as the 45Z rules move toward finalization.

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