

# Final Budget Reconciliation Bill Adjustments to Energy Tax Credits

## Issue Brief

July 7, 2025

On July 3, Congress passed its [budget reconciliation bill](#). The legislation alters existing federal energy tax credits, varying from rapid elimination of several credits, to new phasedown schedules, and to adding new requirements including provisions related to foreign entities of concern.

### BCSE Advocacy

The alterations to key energy tax credits will have a significant impact on many industries BCSE represents. As Congress considered the legislation, BCSE shared industry perspectives through DC-based congressional meetings and outreach, state-focused virtual press briefings, releasing state data, and launching social campaigns. [Click here](#) to learn more about BCSE's tax policy advocacy.

The following breakdown of relevant tax provisions in the budget reconciliation bill was prepared by the [Clean Energy Business Network \(CEBN\)](#).

### Safe Harbor Adjustment

Under existing law, taxpayers can claim energy credits through safe harbor rules triggered through "*commence construction*." Under these longstanding rules, projects can qualify for the value of the tax credit at the time construction begins as long as a project is placed in service within four years.

The final legislation preserves the *commence construction* threshold under existing law for most Sec. 48E/45Y tech-neutral credits, along with the energy-efficient home, buildings, and clean hydrogen credits (45K, 179D, and 45V). The safe harbor provisions for wind and solar were the subject of heated debate as the bill moved through the process.

Ultimately, the legislation retains current safe-harbor rules for solar and wind projects that commence construction within one year of enactment (July 4, 2026). After that, new projects must be placed in service by the end of 2027 to qualify.

## Shortened Tax Credit Timelines

<b>Key:</b>
Elimination in 2025 or 2026
Slightly longer elimination or phaseout
Untouched
Extended

Tax Credit	Previous Timeline	New Timeline
25E – Used EVs	Vehicle acquired by 2032	Vehicle acquired by Sep. 30, 2025
30D – New EVs	Vehicle acquired by 2032	Vehicle acquired by Sep. 30, 2025
30C – EV charging infrastructure	Placed in service by Dec. 31, 2032	Placed in service by June 30, 2026
45W – Commercial EVs	Vehicle acquired by Dec. 31, 2032	Vehicle acquired by Sep. 30, 2025
25C – EE Home Improvement	Placed in service by Dec. 31, 2032	Placed in service by Dec. 31, 2025
25D – Residential Clean Energy <sup>1</sup>	Placed in service by Dec. 31, 2034	Expenditures made by Dec. 31, 2025
45L – New EE Home	Home acquired by Dec. 31, 2032	Home acquired by June 30, 2026
45V – Clean Hydrogen	Construction begins by Dec. 31, 2032	Construction begins by Dec. 31, 2027
45Y – Tech neutral PTC 48E – Tech neutral ITC	Construction begins in 2025-2032 (or until certain emissions reductions met), project must be placed in service within four years	<p>Wind and Solar:</p> <p>Projects that <b>begin construction</b> before early July 2026 (one year after enactment) retain the current safe harbor to claim credit (project must be placed in service within four years).</p> <p>Projects beginning construction after early July 2026 (one year after enactment) must be placed in service by December 31, 2027 to claim credit.</p> <p>Other tech (geothermal, hydro, storage, etc.):</p> <p>Projects that <b>begin construction</b> by Dec. 31 of the following years retain the current safe harbor to claim credit:</p> <p>2033: 100% of credit 2034: 75% 2035: 50% 2036: 0%</p>
45U – Nuclear	Construction begins by Dec. 31, 2032	Construction begins by Dec. 31, 2032

<sup>1</sup> Eliminates eligibility when homeowner rents or leases property to a third party that is also eligible.

45X – Advanced Manufacturing	Goods produced/sold by Dec. 31 of year: 2029: 100% 2030: 75% 2031: 50% 2032: 25% 2033: 0%	Critical minerals produced by Dec. 31 of year: 2030: 100% of credit 2031: 75% 2032: 50% 2033: 25% 2034: 0%
	Critical minerals: permanent	Wind manufacturing goods sold by Dec. 31 of year: 2027: 100% of credit 2028: 0%
		Battery/solar components sold by Dec. 31 of year: 2030: 100% of credit 2031: 75% 2032: 50% 2033: 25% 2034: 0%
48A(vii) – Geothermal Heat	Construction begins by Dec. 31, 2034	Construction begins by Dec. 31, 2034
179D – EE Commercial Building	Construction begins by Dec. 31, 2032	Construction begins by June 30, 2026
45Q – Carbon Capture	Construction begins by Dec. 31, 2032	Construction begins by Dec. 31, 2032
45Z – Clean Fuel Production (SAF)	Fuel sold in 2025-2027	Fuel sold in 2025-2029

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## Foreign Entities of Concern Restrictions

Beginning in 2026, the legislation places stringent restrictions on tax credits for projects involving “foreign entities of concern.” Some of the restrictions would be very challenging to comply with. For example, requiring project owners to determine if any major shareholders have a grandparent or derive personal income from one of the countries of concern.

The bill places restrictions on projects involving “foreign entities of concern.” The FEOC revisions were reportedly simplified as the bill moved through the process, but CEBN has not yet completed a thorough analysis of these provisions. ([Ernst & Young has prepared a deep-dive analysis of FEOC restrictions](#) in earlier versions of the legislation, which does not yet reflect the latest changes.)

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## Transferability

Current law allows for “transferability,” which enables entities without a financial stake in a project to buy energy credits from project developers. While earlier iterations of the bill rolled back transferability, the final legislation would preserve transferability across the board. Direct pay remains intact.

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## Changes to Sec. 174 R&D Deduction

The Sec. 174 R&D tax deduction previously enabled immediate expensing for nearly 70 years until changes made in the 2017 Tax Cuts and Jobs Act went into effect as of 2022. From then on, businesses were required to amortize domestic R&D expenses over a period of five years, creating significant tax liabilities for many high-tech companies and startups. Foreign R&D was subject to a 15-year amortization schedule.

The legislation permanently reinstates the full value of the Sec. 174 deduction for domestic R&D. Businesses will be able to deduct all eligible R&D expenses in the first year incurred as of January 1, 2025. The final legislation also creates a [small business carveout](#) retroactively dating back to 2022, when the Sec. 174 R&D tax deduction first lapsed. Businesses with gross receipts under \$31,000,000 will be eligible for retroactive tax relief for tax years 2022, 2023, and 2024.

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## Energy and Environment Provisions

The House version of the “One Big Beautiful Bill” included a title passed by the [House Committee on Energy and Commerce](#) that would repeal elements of the Light Duty/Heavy Duty Vehicle Standards, Greenhouse Gas Reduction Fund (GGRF), and parts of the Loan Programs Office (LPO) in the Department of Energy.

To comply with Senate rules for budgetary measures, the final bill pared back some of these outright eliminations of programs and instead focused on defunding them. It rescinded unobligated funding for energy and climate programs from the bipartisan Infrastructure Investment and Jobs Act and Inflation Reduction Act (signed into law in 2021 and 2022, respectively) and prohibited penalties for failure to comply with vehicle standards.

## For more information on this topic:



[H.R. 1 Budget Reconciliation Bill Text](#)

Look up the existing tax code via [Cornell’s Legal Information Institute](#) (in the “search by citation section” put Title 26 and then the relevant Section number referenced above).

[House Sends Major Budget Bill to President’s Desk Amid Divided Energy Sector Response](#) – Daily Energy Insider

[How the G.O.P. Bill Will Reshape America’s Energy Landscape](#) – *The New York Times*

[What’s Next for IRA Tax Credits?](#) – E&E News (\$)

### Additional BCSE Resources

[BCSE Tax Policy Advocacy](#)

Press release: [Clean Energy Industries Statement on Final Budget Reconciliation Bill](#)

[State Energy Factsheets](#)

Issue brief: [The “Best in Class” Trackers on IRA Implementation and Impact](#)