



# What's News in Tax

Analysis that matters from Washington National Tax

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## What's New in Energy Credits for 2026

by Kelsey Latham, Praveen Ayyagari, Julie Chapel and Katherine Breaks, Washington National Tax

To prepare for the 2025 tax filing season, this article breaks down changes in the law for clean energy tax credits—covering accelerated terminations and phaseouts, prohibited foreign entity rules, as well as recent and anticipated guidance.

As we enter 2026, taxpayers investing in clean energy properties must assess changes to the clean energy tax credits enacted and amended by the Inflation Reduction Act (“IRA”). Several of the IRA credits took effect in 2025 and the [One Big Beautiful Bill Act](#),<sup>1</sup> (“OB3”) and guidance released thereunder, make immediate changes to many of these credits. This article discusses key issues, such as accelerated credit terminations and phaseouts, prohibited foreign entity rules, and other rules introduced by OB3, along with issued and expected guidance relevant to the 2025 tax filing season. Please refer to the [report](#) issued by KPMG’s National Tax Incentives and Credits team for details regarding these provisions.

### Accelerated Terminations and Phase Outs

Following the enactment of OB3, numerous clean energy and vehicle credits are subject to accelerated termination dates. Historically, most credit phaseouts were driven by the property’s begin-construction date. OB3 broadens this framework by including additional concepts, including acquisition date and placed in service date, that must be analyzed to determine credit eligibility. Taxpayers should understand each concept and maintain the appropriate documentation to substantiate credits generated by eligible property.

Notably, for a wind or solar project to qualify for the sections 48E or 45Y credits going forward, it must begin construction by July 4, 2026, or be placed in service by the end of 2027.<sup>2</sup> The Administration issued Executive Order (“E.O.”) 14315 entitled *Ending Market Distorting Subsidies for Unreliable, Foreign-Controlled Energy Sources*, on July 7, 2025. The E.O. provided that Treasury should take action within 45 days to strictly enforce the termination of the clean electricity production and investment tax credits for wind and solar facilities, which created marketplace uncertainty for a brief period of time.<sup>3</sup>

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<sup>1</sup> Pub. L. No. 119-21.

<sup>2</sup> Unless otherwise indicated, section references are to the Internal Revenue Code of 1986, as amended (the “Code”) or the applicable regulations promulgated pursuant to the Code (the “regulations”).

<sup>3</sup> E.O. 14315 also directs Treasury to “take prompt action as the Secretary or the Treasury deems appropriate and consistent with applicable law to implement the enhanced Foreign Entity of Concern restrictions” in OB3 (see section (2) of this document). To date, Treasury has not released guidance to implement these provisions.

In response to the E.O., the IRS issued [Notice 2025-42](#), which eliminates the ability to use the “5 Percent Safe Harbor” for wind and large solar facilities that begin construction on or after September 2, 2025.<sup>4</sup> Please refer to a summary issued by KPMG’s National Tax Incentives and team [here](#).

### Clean Energy Generation & Storage Credits

Category	Code Sections	IRA Termination / Phaseout	OB3 Change
<b>Renewables &amp; Storage</b>	45, 48	Terminates for projects beginning construction after 2024	No change
<b>Geothermal Heat Pumps</b>	48	Phases down starting 2033; Terminates for projects beginning construction on or after 1/1/35	No change
<b>Tech-Neutral Credits</b>	45Y, 48E	Phases out for projects beginning construction in 2034 or later, unless emissions target hits	<b>Wind/Solar tightened:</b> must begin construction by 7/4/26 or placed in service by end of 2027. <b>Other tech (storage, geothermal, hydro, nuclear):</b> phased out beginning 2034; emissions trigger removed
<b>Existing Nuclear</b>	45U	Terminates for tax years beginning after 12/31/32	No change

### Vehicle-Related Credits

Category	Code Section	IRA Termination/Phaseout	OB3 Change
<b>New Clean Vehicles</b>	30D	Terminates for vehicles placed in service after 12/31/32	Terminates for vehicles acquired after <b>9/30/25</b>
<b>Pre-Owned Clean Vehicles</b>	25E	Terminates for vehicles placed in service after 12/31/32	Terminates for vehicles acquired after <b>9/30/25</b>
<b>Commercial Clean Vehicles</b>	45W	Terminates for vehicles placed in service after 12/31/32	Terminates for vehicles acquired after <b>9/30/25</b>
<b>Charging / Refueling Property</b>	30C	Terminates for property placed in service after 12/31/32	Terminates for property placed in service after <b>6/30/26</b>

<sup>4</sup> There is an exception for small solar facilities (with less than 1.5 MW of capacity).

## Home and Building Efficiency Incentives

Category	Code Section	IRA Termination/Phaseout	OB3 Change
<b>Home Energy Efficiency</b>	25C	Terminates for property placed in service (i.e., installed) after 12/31/32  Unclear regarding home energy audits.	Terminates for property placed in service (i.e., installed) after <b>12/31/25</b>
<b>Residential Clean Energy</b>	25D	Phases out for property placed in service after 12/31/32 and terminates for property placed in service after 12/31/34	Phases out for expenditures after <b>12/31/25</b>
<b>New Energy Efficient Homes</b>	45L	Terminates for homes acquired after 12/31/32	Terminates for homes acquired after <b>6/30/26</b>
<b>Energy Efficient Commercial Buildings</b>	179D	No termination	Terminates for property the construction of which begins after <b>6/30/26</b>

## 45X Credits for Manufacturing and Domestic Supply Chain

Subcategory	IRA Phaseout	OB3 Change
<b>General 45X Components</b>	Phases out 2030–2032	No change
<b>Critical Minerals</b>	No phaseout	Metallurgical coal added as critical mineral but is eligible for a reduced rate of 2.5% through 2029; all other critical minerals phase out 2031–33
<b>Wind Components</b>	Phases out 2030–2032	Terminates for wind components sold after 2027

## Fuels and Clean Fuels Production

Category	Code Section	IRA Termination	OB3 Change
<b>Clean Fuel Production</b>	45Z	Terminates for fuel sold after 12/31/27	Terminates for fuel sold after 12/31/29 (i.e., extends the credit by 2 years)
<b>Clean Hydrogen</b>	45V	Terminates for facilities beginning construction after 12/31/32	Terminates for facilities beginning construction after 12/31/27
<b>Carbon Capture</b>	45Q	Terminates for facilities beginning construction after 12/31/32	No change

#### Opportunities and considerations:

With certain credits terminating or phasing out in 2026, taxpayers should reevaluate their current strategy and confirm it aligns with the tax credit rules, as amended by OB3. Importantly, taxpayers should develop robust documentation packages—covering beginning-of-construction and placed-in-service requirements—to secure credits before phaseout deadlines. Additionally, look-back studies can help ensure no eligible activity is missed.

## Prohibited Foreign Entity (PFE) Rules

The OB3 included new Prohibited Foreign Entity (“PFE”) rules that restrict which taxpayers may qualify for various credits. The list below summarizes which credits are impacted by these complex rules for tax years beginning after OB3’s enactment (i.e., July 4, 2025), which is generally the 2026 calendar year.

- Clean Electricity Investment Credit (section 48E)
- Clean Electricity Production Credit (section 45Y)
- Credit for Carbon Oxide Sequestration (section 45Q)
- Zero-Emission Nuclear Power Production Credit (section 45U)
- Advanced Manufacturing Tax Credit (section 45X)
- Clean Fuel Production Credit (section 45Z)

As further defined in this [KPMG Report](#), the PFE rules fall into three categories. These categories provide a practical roadmap for the types of questions taxpayers should be asking to confirm their structures and supply chains do not inadvertently run afoul of the new requirements.

- **Entity Rules** – This disallows a taxpayer from claiming certain credits if they are a Specified Foreign Entity (“SFE”) or a Foreign-Influenced Entity (“FIE”).
- **Applicable Payment Rule** – This is an anti-abuse provision under OB3: if a taxpayer makes “applicable payments” to an SFE that confer effective control over a qualified facility, then the taxpayer is no longer eligible to claim the credit.
- **Material Assistance** – Similar to the domestic content rules, this restricts the amount of manufactured products included in a property or inputs into eligible components that may be sourced from a PFE for the purposes of qualifying for a credit.

#### Opportunities and considerations:

Although these rules are rather restrictive, they are workable with the right planning. Taxpayers should evaluate restructuring opportunities, perform value chain assessments to identify material suppliers, and perform detailed content analyses to maintain continued eligibility for the credits. Additionally, this highlights another reason that the beginning of construction dates are crucial to document for projects—i.e., material assistance rules only affect project that begin construction after December 31, 2025.

## Transferability

Although direct pay and transferability remained largely unchanged, OB3 applies foreign entity rules to the transferability monetization mechanism. Specifically, it prohibits transfers of credits to SFEs under section 6418 for tax years beginning after the enactment of OB3. Therefore, moving forward, it is very important to understand the organizational structure of both the buyer and seller of credit before entering into agreements. This will need to be a key point of diligence in credit transfers.

## Issued and Expected Guidance

### Issued Guidance

As noted above, the IRS issued Notice 2025-42, which eliminates the ability to use the long-standing 5 Percent Safe Harbor for wind and large solar facilities that begin construction on or after September 2, 2025. This imminently affects taxpayers who are investing in wind and large solar facilities and will require planning as the credits with respect to these technologies phase out.

Additionally, the IRS released Notice 2026-1 to provide interim guidance for the purposes of determining the tax credit for carbon oxide (CO<sub>2</sub>) sequestration under section 45Q credit with respect to the 2025 calendar year. This notice provides a safe harbor and, thus, certainty to taxpayers claiming credits under section 45Q for secure geologic storage projects in the event the Environmental Protection Agency (“EPA”) doesn’t launch the electronic Greenhouse Gas Reporting Tool (“e-GGRT”) for filers to prepare and submit information required under subpart RR of 40 CFR part 98 for reporting year 2025 by June 10, 2026. However, the safe harbor does not apply if the EPA launches the e-GGRT for reporting year 2025 by June 10, 2026.

Treasury and the IRS expect that forthcoming proposed regulations will propose updated requirements for taxpayers claiming the credit for secure geological storage after the 2025 calendar year.

Please visit the [report](#) prepared by KPMG’s National Incentives and Credits team for a summary of this notice.

### Expected Guidance

As we enter the new year, we anticipate the issuance of guidance regarding the implementation of the following early in 2026:

#### **PFE Rules**

As discussed above, these rules include many layers and nuances that significantly affect credit eligibility. We expect Treasury to provide preliminary clarifying guidance on how the rules apply, especially with respect to the material assistance rules.

#### **Section 45Z**

In January of 2025, Treasury and the IRS issued IRS Notice 2025-10, which served as a draft of forthcoming proposed regulations. This guidance provided clarity, but left taxpayers with many questions regarding the eligibility of certain clean fuel production facilities and activities. Additional guidance on how certain credit requirements apply will be critical to providing taxpayers certainty as we enter the 2025 tax filing season.

## 2025 Filing Considerations

### New Credits

Certain new credits took effect in 2025—specifically, the clean electricity production and investment tax credits under sections 45Y and 48E and the clean fuel production tax credit under section 45Z. While many of these new credits have been the focus of planning for some time, there are nuances that should be considered for any taxpayers planning to benefit from one of these credits in the upcoming 2025 filing season.

## New Forms

### ***DRAFT Form 7220 and Instructions: Prevailing Wage and Apprenticeship (“PWA”) Verifications and Corrections***

This form is new for the 2025 filing season. Taxpayers should use Form 7220 to report information for each facility claiming an increased credit or deduction amount for satisfying certain PWA requirements (including the calculating and reporting of penalties, which flows to the form 4255).

It should be noted that a taxpayer should file a separate Form 7220 for each facility for which a taxpayer is claiming a credit.

Also, a taxpayer needs to file a separate Form 7220 to report ongoing compliance for alterations or repairs on facilities placed in service in a prior year that claimed the increased credit amount. Failure to properly comply with the ongoing requirements have recapture consequences. Therefore it is important that taxpayers remain aware of any guidance, including forms and instructions, that the IRS releases regarding how a taxpayer should report ongoing compliance with these requirements.

This form appears to serve as a replacement for the increased credit rate statement as required on 2024 credit source forms. Therefore, the following draft 2025 source forms and instructions notably require the taxpayer to file a form 7220 if the taxpayer elects to take an increased credit rate for the respective credit.

### ***New Source Forms and Instructions***

Although the IRS has issued numerous draft forms and instructions for the 2025 tax year, this article focuses on forms and instructions that were both updated in December of 2025 and contain notable changes. The IRS maintains a continuously updated docket of draft federal filing forms and corresponding instructions, which can be accessed [here](#). All draft forms have been updated to reflect the changes made by OB3 as discussed above, specifically related to restrictions relating to prohibited foreign entities and material assistance from prohibited foreign entities impacting certain credits. Additionally, all credits that provide for an increased credit rate for satisfying certain PWA requirements have updated the form and instructions to require the taxpayer to file Form 7220 detailing such compliance.

- **DRAFT Form 7207 and Instructions: Advanced Manufacturing Production Credit**

The instructions now include a series of appendices with samples of the Contract Manufacturing Certification Statement and Related Person Election Certification for electrode active materials and applicable critical minerals. In prior years, these were prepared and filed at the discretion of the taxpayer. This provides certainty as to what the IRS will require for compliance.

The instructions now include a section regarding restrictions relating to prohibited foreign entities and material assistance from prohibited foreign entities.

- **DRAFT Form 7211 and Instructions: Clean Electricity Production Credit:**

The instructions contain a reminder of Notice 2025-42, which contains beginning of construction requirements for applicable wind and solar facilities.

- **DRAFT Form 8933 and Instructions: Carbon Oxide Sequestration Credit:**

The instructions contain an update that serves as a reminder regarding the new credit rate for facilities or equipment placed in service after OB3’s enactment.

- **DRAFT Form 3800 Instructions: General Business Credits:**

The instructions provide that the taxpayer can *either* use the newly provided Schedule A (Form 3800) or other document containing the required information and signatures for the purposes of executing a transfer election statement properly. It also walks through the necessary information that the taxpayer should provide when utilizing the Schedule A (Form 3800) or other documents.



Again, in prior years, these were prepared and filed at the discretion of the taxpayer. This provides certainty as to what the IRS will require for compliance.

The following forms relate to certain credits which took effect in 2025. Therefore, these are new tax forms for the 2025 tax year.

- DRAFT Form 7211 and Instructions: Clean Electricity Production Credit
- DRAFT Form 7213 and Instructions: Nuclear Power Production Credit
- DRAFT Form 7218 and Instructions: Clean Fuel Production Credit
- Note that the Form 3468 is an existing form for the reporting of the Investment Tax Credit, and has been updated to reflect the Clean Electricity Investment Credit under section 48E.

Each of the credits associated with these forms involves the application of several complex tax and technical concepts, including the determination of what constitutes a “facility,” the evaluation of whether the project satisfies the PWA requirements, the methodology for calculating greenhouse gas emissions, and—specifically for the clean fuel production credit—the classification and analysis of sales made to customers. The new draft forms also introduce several new appendices to the forms that may be unfamiliar to taxpayers.

The instructions associated with each form help the taxpayer understand the nuanced requirements for claiming each credit. As the IRS issues guidance, it updates the instructions accordingly and directs the taxpayer to the relevant code sections and associated guidance to ensure that they rely on the most current authority when completing the forms. While IRS forms and instructions themselves are not authoritative guidance, they do reflect the IRS’s current administrative approach to reporting the credit, so taxpayers should ensure that they are using the instructions as a tool throughout filing season to ensure accuracy.

#### Opportunities and considerations:

With several new credits coming online this filing season, it is essential to complete the documentation needed to claim these credits. In addition to identifying which properties are being placed in service in 2025, taxpayers must also consider the ongoing reporting obligations related to PWA under Form 7220. These requirements extend to activities occurring at properties placed in service in prior years—five years for ITC properties and ten years for PTC properties—making continuous tracking critical.

## Conclusion

Although this only scratches the surface of the detailed analyses required as we begin 2026, it provides a practical toolbox for taxpayers affected by the introduction of new rules and concepts. These considerations can help identify when additional diligence, restructuring, or modeling may be needed—and when planning can create value for taxpayers.

## WNT Incentives and Credits Contacts

For more information, please contact one of the following professionals from KPMG's Washington National Tax Incentives and Credits group:

- [Praveen Ayyagari](#)
- [Simon Belokowsky](#)
- [Katherine Breaks](#)
- [Julie Chapel](#)
- [Kelsey Latham](#)
- [Pinky Shodhan](#)

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



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