

31 Business Credits

■ Tab 31 Contents ■

Business Expense Reduction for Certain Credits	31-1
Common Elections	31-1
Completing Form 3800	31-1
Business Credits Chart	31-2
General Business Credit	31-3
General Business Credit (Form 3800)	31-3
Reducing Certain Expenses for Which Credits Are Allowable	31-6
Advanced Manufacturing Production Credit (Form 7207)	31-6
Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit (Form 8864)	31-6
Carbon Oxide Sequestration Credit (Form 8933)	31-6
Clean Hydrogen Production Credit (Form 7210)	31-7
Credit for Employer Differential Wage Payments (Form 8932)	31-7
Credit for Employer-Provided Childcare Facilities and Services (Form 8882)	31-7
Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846)	31-7
Credit for Increasing Research Activities (Form 6765)	31-8
Credit for Small Employer Health Insurance Premiums (Form 8941)	31-8
Credit for Small Employer Pension Plan Startup Costs, Contributions, Auto-Enrollment, and Military Spouse Participation (Form 8881)	31-9
Disabled Access Credit (Form 8826)	31-10
Distilled Spirits Credit (Form 8906)	31-10
Employer Credit for Paid Family and Medical Leave (Form 8994)	31-11
Empowerment Zone Employment Credit (Form 8844)	31-11
Energy Efficient Home Credit (Form 8908)	31-11
Enhanced Oil Recovery Credit (Form 8830)	31-12
Investment Credit (Form 3468)	31-12
Low-Income Housing Credit (Form 8586)	31-15
New Markets Tax Credit (Form 8874)	31-15
Nuclear Power Production Credit (Form 7213)	31-15
Orphan Drug Credit (Form 8820)	31-16
Qualified Commercial Clean Vehicle Credit (Form 8936)	31-16
Renewable Electricity Production Credit (Form 8835)	31-16
Clean Electricity Production Credit (Form 7211)	31-17
Work Opportunity Credit (Form 5884)	31-17
Other Credits	31-18
Credit for Federal Tax Paid on Fuels (Form 4136)	31-18
Clean Fuel Production Credit (Form 7218)	31-18
Credit for Prior Year Minimum Tax—Corporations (Form 8827)	31-18

Business Expense Reduction for Certain Credits

Allowable business deductions my need to be reduced for expenses claimed to compute the following credits.

- Credit for Employer Differential Wage Payments.
- Credit for Employer-Provided Childcare Facilities.
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.
- Credit for Increasing Research Activities.
- Credit for Small Employer Health Insurance Premiums.
- Credit for Small Employer Pension Plan Startup Costs and Employer Contributions.
- Disabled Access Credit.
- Employer Credit for Paid Family and Medical Leave.
- Empowerment Zone Employment Credit.
- Orphan Drug Credit.
- Work Opportunity Credit.

■ New for 2025 ■

- **Form 3800.** Schedule A, *Transfer Election Statement*, was added to Form 3800. See *Transfer election statement*, page 31-4.
- **Energy Credit.** This credit is terminated for property constructed beginning on or after June 16, 2025. See *Energy Credits Chart*, page 31-14.
- **Foreign entities prohibited.** Several energy credits are terminated for foreign entities after July 3, 2025. See the following.
 - *Clean Electricity Investment Credit*, page 31-14.
 - *Nuclear Power Production Credit*, page 31-15.
 - *Clean Electricity Production Credit*, page 31-17.
 - *Clean Fuel Production Credit*, page 31-18.
- **New Markets Tax Credit.** This credit has been permanently extended. See *New Markets Tax Credit (Form 8874)*, page 31-15.
- **Qualified Commercial Clean Vehicle Credit.** This credit has been terminated for vehicles acquired after September 30, 2025. See *Qualified Commercial Clean Vehicle Credit (Form 8936)*, page 31-16.

Common Elections

- Election to treat certain credits as payment of tax, page 31-3.
- Election to transfer all or a portion of eligible credits to unrelated taxpayers for cash, page 31-4.
- Election to apply up to \$500,000 of the Credit for Increasing Research Activities against the employer portion of payroll taxes, page 31-8.
- Election to have the preceding tax year be the first credit year for claiming the credit for qualified pension plan start-up costs, page 31-10.
- Election to claim expenditures in the year paid for the Rehabilitation Credit, page 31-15.

Completing Form 3800

Complete Form 3800 in the following order.

- 1) Item A (Corporate Alternative Minimum Tax and Base Erosion Anti-Abuse Tax checkbox).
- 2) Complete Parts III (Current Year General Business Credits), columns (a) through (j), IV, V, and VI (if applicable) before completing Parts I and II.
 - Complete Part III columns (b), (f), (h), and (j) only if the taxpayer is making the elective payment election or the transfer election.
 - Complete Part III column (a) and Part V only if the taxpayer is reporting more than one facility or more than one pass-through entity as sources for any one credit.
 - Complete Part III column (c) only if the taxpayer is receiving the credit on a Schedule K-1 from a pass-through entity or receives an eligible credit from an unrelated taxpayer as transferee.
 - Complete Parts IV and VI to record the accrued carryforwards and carrybacks as shown in business records before application of the credits to the current tax year. The information on Parts IV and VI comes from tax returns and schedules for prior years (and subsequent years, for carrybacks).
- 3) Complete Parts I [Credits Not Allowed Against Tentative Minimum Tax (TMT)] and II [Figuring Credit Allowed After Limitations].

Business Credits Chart

Tab Page	Credit Name	Form	IRS Pub.	IRC §	Description	Expiration Date
31-6	Advanced Manufacturing Production Credit	7207		45X	Production and sale of eligible energy components.	Various
31-6	Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credits	8864	334	40A, 40B	Production, use, sale of qualified fuels.	12/31/24
31-6	Carbon Oxide Sequestration Credit	8933	334	45Q	Capture and disposal of carbon oxide.	12/31/32
31-7	Clean Hydrogen Production Credit	7210		45V	Production of clean hydrogen at a qualified facility.	12/31/27
31-7	Credit for Employer Differential Wage Payments	8932	334	45P	Wages paid to uniformed active duty servicemembers.	None
31-7	Credit for Employer-Provided Childcare Facilities and Services	8882	334	45F	Buy, build, or expand childcare facility.	None
31-7	Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips	8846	334	45B	Amount paid on tips when wages plus tips exceed \$5.15 per hour for food and beverage establishments, \$7.25 for beauty service businesses.	None
31-8	Credit for Increasing Research Activities	6765	334	41	Research and experimental costs.	None
31-8	Credit for Small Employer Health Insurance Premiums	8941	334	45R	Small employer health insurance premiums.	None
31-9	Credit for Small Employer Pension Plan Startup Costs, Contributions, Auto-Enrollment, and Military Spouse Participation	8881	560	45E 45T 45AA	Establishment of new pension plan and auto-enrollment for employer with not more than 100 employees.	None
31-10	Disabled Access Credit	8826	334	44	Creating access for the disabled.	None
31-10	Distilled Spirits Credit	8906	334	5011	Distilling, importing, storage of distilled spirits.	None
31-11	Employer Credit for Paid Family and Medical Leave	8994	334	45S	Paid FMLA leave to qualified employees.	None
31-11	Empowerment Zone Employment Credit	8844	334	1396	Wages paid in certain geographic areas.	12/31/25
31-11	Energy Efficient Home Credit	8908	334	45L	Home construction contractor sales or leases.	6/30/26
31-12	Enhanced Oil Recovery Credit	8830		43	Qualified costs of enhanced oil recovery.	None
31-12	Investment Credit	3468	334			
31-12	• Qualifying Advanced Coal Project Credit			48A	IRS approved advanced coal projects.	None
31-12	• Qualifying Gasification Project Credit			48B	IRS approved projects to convert coal, biomass, or other materials into gas.	None
31-12	• Qualifying Advanced Energy Project Credit			48C	IRS approved property placed in service for advanced energy manufacturing projects.	None
31-12	• Advanced Manufacturing Investment Credit			48D	Investments in a semiconductor manufacturing facility or a semiconductor equipment manufacturing facility.	None
31-12	• Clean Electricity Investment Credit			48E	Investment in facilities that generate clean electricity and qualified energy storage technologies.	Various
31-12	• Energy Credit			48	Solar, geothermal, small wind, fuel cell energy property, or waste energy recovery property.	Various
31-12	• Rehabilitation Credit			47	Buildings placed in service before 1936 or historic structures.	None
31-15	Low-Income Housing Credit	8586	334	42	Provision of low-income residential property.	None
31-15	New Markets Tax Credit	8874	334	45D	Qualified equity investments made in qualified community development entities (CDEs).	None
31-15	Nuclear Power Production Credit	7213				
31-15	• Credit for Production of Electricity from Advanced Nuclear Power Facilities			45J	Production of electricity from advanced nuclear power facilities.	None
31-15	• Zero-Emission Nuclear Power Production Credit			45U	Production of electricity from zero-emission nuclear power facilities.	12/31/32
31-16	Orphan Drug Credit	8820	334	45C	Research and testing on drugs for rare diseases.	None
31-16	Qualified Commercial Clean Vehicle Credit	8936		45W	Placing in service a qualified commercial clean vehicle.	9/30/25
31-16	Renewable Electricity Production Credit	8835	334	45	Sale of qualified energy resources from qualified facilities.	Various
31-17	Clean Electricity Production Credit	7211		45Y	Clean electricity produced at a qualified facility.	12/31/27
31-17	Work Opportunity Credit	5884	334	51	Employment of targeted group individuals.	12/31/25
31-18	Credit for Federal Tax Paid on Fuels	4136	510	34, 40B	Off-highway fuel use.	Various
31-18	Clean Fuel Production Credit	7218		45Z	Domestic production of clean transportation fuel.	12/31/29
31-18	Credit for Prior Year Minimum Tax—Corporations	8827	542	53	Minimum tax credit carryforward only.	None

General Business Credit

Cross References

- Form 3800, *General Business Credit*
- IRS Pub. 334, *Tax Guide for Small Business*
- IRC §38 – 52

Related Topics

- Business Deductions, Tab 8
- Tax Credits, Tab 11

General Business Credit (Form 3800)

The general business credit is made up of several different credits, each reported on its own form. Form 3800 is used to:

- Combine credit amounts,
- Report allowable passive activity credits,
- Report elective payment elections (EPEs) or credit transfer elections,
- Account for credit carryovers, and
- Determine the allowable credit for the year.

The general business credit is nonrefundable.

Form 3800 parts to complete. Form 3800 consists of the following parts:

- **Item A – Corporate Alternative Minimum Tax (CAMT) and Base Erosion Anti-Abuse Tax (BEAT).** Taxpayers must answer yes or no to whether they are an applicable corporation (average annual financial statement income exceeding \$1 billion) for the CAMT or an applicable taxpayer (average annual gross receipts of \$500 million or more) for the BEAT.
- **Part I – Credits Not Allowed Against Tentative Minimum Tax (TMT).** Complete applicable portions of Parts III, IV, V, and VI, before Parts I and II.
- **Part II – Figuring Credit Allowed After Limitations.** Complete applicable portions of Parts III, IV, V, and VI, before Parts I and II. Part II is broken down into four sections to determine credit allowed after certain limitations.
 - Part II – Section A – Figuring Credit Allowed After Section 38(c)(1) Limitation Based on Amount of Tax.
 - Part II – Section B – Figuring Section 38(c)(2) Empowerment Zone and Community Renewal Employment Credit Allowed.
 - Part II – Section C – Figuring the Specified Credit Amount Allowed Under Section 38(c)(4).
 - Part II – Section D – Credits Allowed After Limitations.
- **Part III – Current Year General Business Credits (GBCs).** Part III reports current year business credits flowing from applicable tax forms claiming the credit. Part III is also completed for taxpayers making an EPE or transfer elections (either as transferor or recipient transferee). See *Elective payment election (EPE)*, next column, and *Credit transfer election*, page 31-4.
- **Part IV – Carryovers of General Business Credits (GBCs).** Parts IV and VI record the carryforwards and carrybacks. Part IV separately reports business credit carryforwards carried to 2025, and business credit carrybacks carried to 2025 from a subsequent year on an amended return or an application for tentative refund.
- **Part V – Breakdown of Aggregate Amounts on Part III for Facility-by-Facility, Multiple Pass-Through Entities, etc.** If any of the amounts entered in Part III (aside from totals) are aggregate amounts from more than one facility or more than one pass-through entity, provide breakdowns of those amounts by EPEs or transfer registration number and by the EIN of the pass-through entity in Part V.

- **Part VI – Breakdown of Aggregate Amounts in Part IV.** Parts IV and VI record the carryforwards and carrybacks. If any of the amounts entered in Part IV (aside from totals) are aggregate amounts from more than one year or more than one pass-through entity, provide breakdowns of those amounts by tax year and EIN of the pass-through entity in Part VI.

Who must file. Form 3800 must be filed to claim any of the general business credits. A taxpayer whose only source for a credit is from a partnership, S corporation, estate, trust, or cooperative, or who received the credit as a transfer from an unrelated eligible taxpayer, reports the credit directly on Form 3800. However, the source credit form must be completed for the following taxpayers (unless the credit was received as a transfer from an unrelated eligible taxpayer).

- Partnerships and S corporations.
- Taxpayers claiming the Investment Credit (Form 3468) or the Biodiesel, Renewable Diesel Fuels, and Sustainable Aviation Fuels Credit (Form 8864).
- Estates, trusts, or cooperatives where a credit must be allocated to beneficiaries or patrons.

Partnerships and S corporations. Partnerships and S corporations that make EPEs, transfer elections (as transferor), or receive a credit from a transfer (as transferee) must complete and attach Form 3800 to Form 1065 or Form 1120-S. Partners and shareholders report their share of each transferred credit received from partnerships and S corporations on the applicable line of the partner's or shareholder's Form 3800. To make an elective payment or transfer election, a taxpayer must get a registration number from the IRS for each applicable credit property and include the registration number(s) on the entity's tax return.

Elective payment election (EPE). Applicable entities and certain electing taxpayers can elect to treat the following credits as elective payments of tax.

- Advanced Manufacturing Investment Credit (Form 3468, Part IV), page 31-12.
- Advanced Manufacturing Production Credit (Form 7207), page 31-6.
- Alternative Fuel Vehicle Refueling Property Credit (Form 8911), page 11-17.
- Carbon Oxide Sequestration Credit (Form 8933), page 31-6.
- Clean Electricity Investment Credit (Form 3468, Part V), page 31-12.
- Clean Electricity Production Credit (Form 7211), page 31-17.
- Clean Fuel Production Credit (Form 7218), page 31-18.
- Clean Hydrogen Production Credit (Form 7210), page 31-7.
- Energy Credit (Form 3468, Part VI), page 31-14.
- Qualified Commercial Clean Vehicle Credit (Form 8936), page 31-16.
- Qualifying Advanced Energy Project Credit (Form 3468, Part III), page 31-12.
- Renewable Electricity Production Credit (Form 8835), page 31-16.
- Zero-Emission Nuclear Power Production Credit (Form 7213, Part II), page 31-15.

Applicable credits must first be applied to tax (if any) before being treated as a payment, therefore, amounts treated as a payment (net payment election amounts) are limited to the total of unused credits without application of any EPE. See *Credit ordering if elective payment election made*, page 31-6.

No EPE may be made for credits purchased or transferred, acquired by a lessee from a lessor, owned by a third party, or otherwise not determined directly with respect to the taxpayer.

Applicable entities. Applicable entities generally include the following.

- Tax-exempt organizations.
- The government of any U.S. possession or a political subdivision or instrumentality thereof.
- Any state, District of Columbia, or a political subdivision or instrumentality thereof.
- The Tennessee Valley Authority.
- An Indian tribal government or a subdivision or instrumentality thereof.
- Any Alaska Native Corporation.
- Any rural electric cooperative.

The elective payment election effectively makes credits refundable for entities that otherwise owe no tax.

Electing taxpayers. Generally, only applicable entities are eligible for the EPE. However, special rules allow taxpayers that are not applicable entities to make an election to be treated as an applicable entity for the EPE (or credit transfer election, see below) for the following three credits.

- Advanced Manufacturing Production Credit.
- Carbon Oxide Sequestration Credit.
- Clean Hydrogen Production Credit.

Partnerships and S corporations may make an EPE and will receive a payment directly from the IRS equal to the amount of the applicable credit. This payment is treated as tax-exempt income and is allocated to partners and shareholders based on their share of the otherwise applicable credit. A partner or shareholder may not make an EPE for an applicable credit determined with respect to any facility or property held directly by a partnership or S corporation. Electing taxpayer may make the EPE for five consecutive tax years per eligible credit property and are allowed one revocation.

Pre-filing registration required. Prior to completing an EPE, the taxpayer must get a registration number for each facility or property and provide the registration number on the entity's tax return. A registration number is valid only for the tax year for which it is obtained. If an EPE for a particular applicable credit property lasts more than one year, its registration number must be renewed each year during the election period. An EPE is not valid unless it contains the registration number. Completing the pre-filing registration process does not require the taxpayer to make an EPE. Taxpayers may not use an EPE registration number for a credit transfer election or vice-versa.

Making the election. The EPE may be made only on an original, timely-filed return (including extensions). Elective pay is available only after an applicable credit is earned. In general, a tax credit is earned during the tax year the property is placed in service (investment tax credits) or eligible production occurs (production tax credits). A tax return must be filed to make the EPE. For applicable entities, any EPE is irrevocable and applies with respect to any applicable credit for the tax year for which the election is made. There are different rules for electing taxpayers that do allow for a one-time revocation of the EPE during the 5-year period the election applies.

Credit transfer election. Eligible taxpayers who cannot use the EPE can elect to transfer all or a portion of the following eligible credits to unrelated taxpayers for cash payments. The cash payments are not included in gross income of the eligible taxpayers and are not deductible by the unrelated taxpayers.

- Advanced Manufacturing Production Credit (Form 7207), page 31-6.
- Alternative Fuel Vehicle Refueling Property Credit (Form 8911), page 31-6.
- Carbon Oxide Sequestration Credit (Form 8933), page 31-6.

- Clean Electricity Investment Credit (Form 3468, Part V), page 31-12.
- Clean Electricity Production Credit (Form 7211), page 31-17.
- Clean Fuel Production Credit (Form 7218), page 31-18.
- Clean Hydrogen Production Credit (Form 7210), page 31-7.
- Energy Credit (Form 3468, Part VI), page 31-14.
- Qualifying Advanced Energy Project Credit (Form 3468, Part III), page 31-12.
- Renewable Electricity Production Credit (8835), page 31-16.
- Zero-Emission Nuclear Power Production Credit (Form 7213, Part II), page 31-15.

The amount of eligible credits an eligible taxpayer can transfer can be affected by bonus or other requirements that may apply (including the prevailing wage and apprenticeship requirements, domestic content bonus, energy communities bonus, and the low-income communities bonus). An eligible taxpayer may transfer a portion of an eligible credit, but cannot transfer a portion related solely to a bonus credit amount. For example, the portion of an eligible credit related to the domestic content bonus cannot be transferred separately from the rest of the eligible credit.

Note: Individuals and certain other taxpayers who purchase eligible credits are subject to the passive activity rules which may limit their ability to use transferred eligible credits against their federal income tax liability.

Eligible taxpayers. An eligible taxpayer is any taxpayer that is not an applicable entity. See *Applicable entities*, previous column.

Pre-filing registration required. Prior to completing a credit transfer election, the eligible taxpayer must get a registration number for each eligible credit property and provide the registration number on the entity's tax return. A registration number is valid only for the tax year for which it is obtained. If a credit transfer election for a particular credit property lasts more than one year, its registration number must be renewed each year during the election period. A credit transfer election is not valid unless it contains the registration number. Separate registration numbers are generally required for each eligible credit property. To determine whether properties can be grouped under a single registration number, check the rules of the underlying credit. Taxpayers may not use an EPE registration number for a credit transfer election or vice-versa.

Making the credit transfer election. To make the credit transfer election, file a tax return for the tax year in which the eligible tax credit is determined and include a transfer election statement indicating the eligible credit has been transferred to a third party. The tax return must include the registration number for the relevant eligible credit property and must be filed no later than the due date (including extensions) for such tax return.

New for 2025 Transfer election statement. An eligible taxpayer and transferee taxpayer must each attach Schedule A (Form 3800), *Transfer Election Statement*, to their respective returns. Required information includes: name, address and taxpayer identification number for both the eligible taxpayer and transferee, a description of the type and amount of the eligible tax credit transferred, the timing and amount of cash paid for the eligible tax credit transferred and the registration number related to the eligible credit property.

Claiming the credit transfer. To claim an eligible credit purchased from an unrelated party for cash, file a tax return for the tax year in which the eligible tax credit is determined and include the transfer election statement. The tax return must include the registration number for the relevant eligible credit property and must be filed no later than the due date (including extensions) for such tax return.

Basis reduction. If the Energy Credit, Qualifying Advanced Energy Project Credit, or Clean Electricity Investment Credit is transferred, the applicable investment credit property basis must be reduced as if the transferred eligible credit was allowed to the eligible taxpayer.

Recapture. If a transferred eligible credit must be recaptured, the transferee bears the financial responsibility for a recapture event and is required to recapture an amount of previously claimed tax credits based on the time and amount of the recapture event. However, recapture liability applies proportionately to an eligible taxpayer and any transferee taxpayers to the extent an eligible taxpayer has retained eligible credits. The eligible taxpayer is required to notify the transferee if a recapture event occurs.

Carryback/carryforward of unused credit. The general business credit is limited by the greater of:

- The tentative minimum tax, or
- 25% of the amount by which the regular tax liability exceeds \$25,000 (\$12,500 for married taxpayers filing separately, but only if both qualify for the credit).

If part or all of the general business credit is unused because of the tax liability limit, carry the unused credit back one tax year (five years if the credit is for oil and gas production from marginal wells). To carry back an unused credit, file an amended return for the prior tax year or an application for tentative refund using Form 1045, *Application for Tentative Refund*, or Form 1139, *Corporation Application for Tentative Refund*. Generally, an application for tentative refund must be filed by the end of the tax year following the tax year in which the credit arose.

No part of the unused credit for any year can be carried back to any tax year before the first tax year for which that credit was first allowable. See *Credit ordering rule*, next column, to determine which credits are allowed first.

Credits unused after being carried back may be carried forward to each of the 20 tax years after the year of the credit. Qualified business credits [defined in IRC section 196(c)] that are unused after the last tax year of the 20-year carryforward period (or at the time the taxpayer ceases to exist) may be taken as a deduction in the earlier of:

- The tax year following the last tax year of the 20-year carryforward period, or
- The year in which the taxpayer dies or ceases to exist.

Credit carryforward if payroll tax election made. Qualified small businesses electing to claim a portion of the research credit as a payroll tax credit must adjust the research credit carryforward for the amount of the credit elected as a payroll tax credit on Form 6765, *Credit for Increasing Research Activities*. No amount elected as a payroll tax credit can be used to offset the current year tax liability nor can it be included in the carryforward or carryback calculation.

Change in filing or marital status. The general business credit is limited to tax liability. If the taxpayer filed a joint return in a carryback or carryforward year and his or her marital status or filing status has changed, the taxpayer may need to compute his or her separate tax liability in that carryback or carryforward year. This applies if the taxpayer:

- Filed as single in the credit year, but filed a joint return in the carryback or carryforward year,
- Filed a joint return in the credit year, but filed a joint return with a different spouse in the carryback or carryforward year, or
- Was married and filed a separate return in the credit year, but filed a joint return with the same or a different spouse in the carryback or carryforward year.

Credit ordering rule. General business credits reported on Form 3800 are treated as used on a first-in, first-out basis by offsetting the earliest-earned credits first. Therefore, the order in which the credits are used in any tax year is:

- Carryforwards to that year, the earliest ones first,
- The general business credit earned in that year, and
- The carryback to that year.

If general business credits exceed tax liability, the credits are used in the following order and based on the order described in *Order in which credits are used*, below.

Credit amounts allowed as a net elective payment election amount are treated as payments and are not considered used or unused credits for carryback and carryforward rules.

- Credits reported on column (g), line 2, Part III, plus columns (e) and (f), line 6, Part IV.
- Credits reported on line 25, Part II.
- Specified credits reported on column (g), line 5, Part III, plus columns (e) and (f), line 5, Part IV.

Order in which credits are used. When relevant, the components of the general business credit reported on Form 3800 arising in a single tax year are used in the following order.

- Investment Credit [in the following order – Rehabilitation Credit, Energy Credit, Qualifying Advanced Coal Project Credit, Qualifying Gasification Project Credit, Qualifying Advanced Energy Project Credit, Qualifying Therapeutic Discovery Project Credit (carryforward only), Advanced Manufacturing Investment Credit, and Clean Electricity Investment Credit (Form 3468)].
- Work Opportunity Credit (Form 5884).
- Credit for Increasing Research Activities (Form 6765).
- Low-income Housing Credit (Form 8586).
- Enhanced Oil Recovery Credit (Form 8830).
- Disabled Access Credit (Form 8826).
- Renewable Electricity Production (Form 8835).
- Empowerment Zone Employment Credit (Form 8844).
- Renewal Community Employment Credit (carryforward only).
- Indian Employment Credit (carryforward only).
- Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846).
- Orphan Drug Credit (Form 8820).
- New Markets Credit (Form 8874).
- Credit for Small Employer Pension Plan Startup Costs (Form 8881, Part I).
- Credit for Employer-Provided Childcare Facilities and Services (Form 8882).
- Qualified Railroad Track Maintenance Credit (Form 8900).
- Biodiesel, Renewable Diesel (Form 8864).
- Low Sulfur Diesel Fuel Production Credit (Form 8896).
- Credit for Oil and Gas Production from Marginal Wells (Form 8904).
- Distilled Spirits Credit (Form 8906).
- Advanced Nuclear Power Facility Production (Form 7213, Part I).
- Nonconventional Source Fuel Credit (carryforward only).
- Energy Efficient Home Credit (Form 8908).
- Energy Efficient Appliance Credit (carryforward only).
- Alternative Motor Vehicle Credit (Form 8910, Part II).
- Alternative Fuel Vehicle Refueling Property Credit (Form 8911, Part II).
- Mine Rescue Team Training Credit (carryforward only).
- Agricultural Chemicals Security Credit (carryforward only).
- Credit for Employer Differential Wage Payments (Form 8932).
- Carbon Oxide Sequestration Credit (Form 8933).
- Qualified Plug-In Electric Vehicle Credit (carryforward only).
- New Clean Vehicle Credit (Form 8936, Part III).
- Credit for Small Employer Health Insurance Premiums (Form 8941).

continued on next page

- Employee Retention Credit for Employers Affected by Qualified Disasters (carryforward only).
- Employer Credit for Paid Family and Medical Leave (Form 8994).
- Credit for Auto-Enrollment (Form 8881, Part II).
- Zero-Emission Nuclear Power Production (Form 7213, Part II).
- Sustainable Aviation Fuel (Form 8864, Line 8).
- Clean Hydrogen Production (Form 7210).
- Qualified Commercial Clean Vehicle (Form 8936, Part V).
- Advanced Manufacturing Production (Form 7207).
- Military Spouse Retirement Plan Credit (Form 8881, Part III).
- General Credits from an Electing Large Partnership (carryforward only).

Although the credits are aggregated on Form 3800, keep a separate record of each credit to ensure proper accounting of the credits.

Credit ordering if elective payment election made. Credits amounts allowed as a net elective payment election amount are payments and are not considered for carryback and carryforward rules.

Reducing Certain Expenses for Which Credits Are Allowable

If the taxpayer claims certain credits, they may need to reduce the otherwise allowable deductions for expenses used to compute the credit. The following are examples of such credits.

- Credit for Employer Differential Wage Payments.
- Credit for Employer-Provided Childcare Facilities.
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.
- Credit for Increasing Research Activities.
- Credit for Small Employer Health Insurance Premiums.
- Credit for Small Employer Pension Plan Startup Costs and Employer Contributions.
- Disabled Access Credit.
- Employer Credit for Paid Family and Medical Leave.
- Empowerment Zone Employment Credit.
- Orphan Drug Credit.
- Work Opportunity Credit.

If the taxpayer claims any of these credits, compute each current year credit before determining the deduction for expenses on which the credit is based. If the taxpayer capitalized any costs on which it computed the credit, it may need to reduce the amount capitalized by the credit attributable to these costs.

Advanced Manufacturing Production Credit (Form 7207)

This credit is available for eligible energy components produced by a taxpayer within the United States (including U.S. territories) and sold during the tax year in the taxpayer's trade or business to unrelated persons. A separate Form 7207 is filed for each facility operated to produce and sell eligible components.

Credit amount. The credit amount varies by type of eligible component, which includes solar energy, wind energy, inverter components, electrode active materials, battery components, and critical minerals.

Elective pay and transferability. Elective pay and transferability of this credit apply to eligible taxpayers. See *Elective payment election (EPE)*, page 31-3, and *Credit transfer election*, page 31-4.

Alternative Fuel Vehicle Refueling Property Credit (Form 8911)

For coverage of the Alternative Fuel Vehicle Refueling Property Credit (Form 8911), see *Alternative Fuel Vehicle Refueling Property Credit*, page 11-17.

Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit (Form 8864)

Credit expired. This credit expired for fuel sold or used after December 31, 2024. Use 2025 Form 8864, *Biodiesel, Renewable Diesel, or Sustainable Aviation Fuels Credit*, to report any biodiesel, renewable fuel, or sustainable aviation fuel (SAF) credit received from a fiscal year partnership, S corporation, cooperative, estate, or trust, whose tax year began in 2024 and ends during the taxpayer's 2025 tax year.

Carbon Oxide Sequestration Credit (Form 8933)

Use Form 8933 to claim the Carbon Oxide Sequestration Credit. The credit is allowed for qualified carbon oxide that is captured and disposed of or captured, used, and disposed of by the taxpayer in a secure geological storage. Only carbon oxide captured and disposed of or used as a tertiary injectant within the United States or a U.S. territory is taken into account when computing the credit.

The credit is generally allowed to the person that captures and physically or contractually ensures the disposal of, or the use as, a tertiary injectant of the qualified carbon dioxide. See Notice 2009-83 for the annual report required if the tax credit is claimed.

Qualified facility. A qualified facility is any industrial facility or direct air capture facility, the construction of which begins before January 1, 2033, and either the construction of carbon capture equipment begins before that date, or the original planning and design of the facility includes installation of carbon capture equipment.

OBBA For tax years beginning after December 31, 2024 and before January 1, 2027, the applicable dollar amount for carbon oxide captured and utilized is the same as that captured and disposed of.

The applicable dollar amount per metric ton of the credit is:

- \$17 for carbon oxide captured and disposed of in secure geological storage.
- \$12 for carbon oxide captured and used as a tertiary injectant in a qualified enhanced oil or natural gas recovery project and disposed of in secure geological storage, or injected for enhanced oil recovery, or utilized.
- \$36 for direct air capture facilities.

These dollar amounts are increased by a factor of five for facilities and equipment placed in service meeting the prevailing wage and apprenticeship requirements. See *Prevailing wage and apprenticeship (PWA) requirements*, page 31-13.

The credit is reduced for facilities financed through the use of tax-exempt bonds.

Placed in service before February 9, 2018. The applicable dollar amounts are different for qualified carbon oxide that is captured using equipment originally placed in service before February 9, 2018. The amounts, indexed for inflation, are:

- \$28.43 (2025) for qualified carbon oxide captured and disposed of, with or without the taxpayer using it, and
- \$14.21 (2025) for carbon that the taxpayer uses as an injectant before disposing or utilizing, are adjusted for inflation each year.

A taxpayer may elect to continue to use these figures with respect to equipment placed in service on or after February 9, 2018.

Elective pay and transferability. Elective pay and transferability of this credit apply to eligible taxpayers. See *Elective payment election (EPE)*, page 31-3, and *Credit transfer election*, page 31-4.

OBBA Effective for tax years beginning after July 4, 2025:

- The credit is not allowed for a specified foreign entity or a foreign-influenced entity.
- A taxpayer may not elect to transfer any portion of the credit to a specified foreign entity.

New for 2025 Electing taxpayers may, during a subsequent year of the election period, revoke the elective payment election for applicable credit property related to the credit for carbon sequestration. The revocation applies to the tax year for which the revocation is made and each subsequent tax year with in the relevant election period. Any revocation of this election may not itself be later revoked.

Clean Hydrogen Production Credit (Form 7210)

This credit is available for the production of clean hydrogen at a qualified production facility in tax years 2023 through 2027, and may be claimed during the first 10 years beginning on the date the facility was originally placed in service. The amount of the credit is reduced as the amount of carbon dioxide emitted by the production of the hydrogen increases. The credit is also reduced if the taxpayer used the proceeds of tax-exempt bonds to finance the facility.

The credit amount is increased by a factor of five if the prevailing wage and apprenticeship requirements are met. See *Prevailing wage and apprenticeship (PWA) requirements*, page 31-13.

Production and sale or use of clean hydrogen must be verified by an unrelated party. Attach a copy of the certification document to the tax return.

A separate Form 7210 must be used to claim the credit at each qualified clean hydrogen production facility.

Coordination with other credits. The credit cannot be taken if the clean hydrogen is produced at a facility that includes carbon capture equipment for which the Carbon Oxide Sequestration Credit is allowed for the tax year or any prior tax year.

Elective pay and transferability. Elective pay and transferability of this credit apply to eligible taxpayers. See *Elective payment election (EPE)*, page 31-3, and *Credit transfer election*, page 31-4.

Credit for Employer Differential Wage Payments (Form 8932)

This credit provides eligible businesses with an incentive to continue to pay wages to an employee performing services while on active duty in the uniformed services of the United States for a period of more than 30 days.

The credit is 20% of the first \$20,000 of differential wage payments paid by an eligible small business employer to each qualified employee during the tax year.

Deduction reduced by credit. Reduce the deduction for salaries and wages and any capitalized costs by the credit amount, even if the full credit cannot be used due to tax liability limit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Differential wage payment. A differential wage payment must meet both of the following requirements.

- The payment is made by an eligible business employer to a qualified employee for any period during which the employee is serving in the uniformed services of the United States on active duty for a period of more than 30 days, and
- The payment represents all or a portion of the wages the employee would have received from the employer if the employee were performing services for the employer.

Qualified employee. A qualified employee is one employed by the business for the 91-day period immediately preceding the period for which any differential wage payment is made.

Uniformed services. Uniformed services means the Armed Forces; the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty; the commissioned corps of the Public Health Service; and any other category of persons designated by the President in time of war or national emergency.

Coordination with other credits. The amount of any Research Credit or Orphan Drug Credit otherwise allowable for compensation paid to any employee is reduced by the credit for differential wage payments computed for that employee. See *Credit for Increasing Research Activities (Form 6765)*, page 31-8, and *Orphan Drug Credit (Form 8820)*, page 31-16.

Example: Grant is employed by Northwestern, Inc. His salary is \$45,000 per year. Grant is also a member of the National Guard. His National Guard unit is placed on active duty in October 2025 and remains on active duty through the end of the year. Northwestern, Inc. continues to pay Grant's salary while he is on active duty. Northwestern, Inc. is eligible to claim a credit of \$2,250.

Grant's salary prior to active duty (Jan. – Sept.).....	\$33,750
Grant's differential pay (Oct. – Dec.).....	11,250
Grant's total salary.....	<u>\$45,000</u>

Northwestern, Inc.'s allowable credit ($\$11,250 \times 20\%$)..... \$ 2,250

Northwestern would also reduce its deductible wages expense by \$2,250.

Credit for Employer-Provided Childcare Facilities and Services (Form 8882)

Employers use Form 8882 to claim the credit for qualified childcare facility and resource and referral expenditures. The credit may be claimed any time within three years from the due date of the return on either an original or amended return.

The credit equals 25% of qualified childcare facility expenditures, plus 10% of qualified childcare resource and referral expenditures paid or incurred during the tax year. The maximum credit is \$150,000 per tax year.

Deduction reduced by credit. Reduce otherwise allowable deductions, other credits, and basis allocable to capital expenditures by the amount of the credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846)

This credit is generally equal to the employer's portion of Social Security and Medicare taxes paid on tips received by employees of a food and beverage establishment where tipping is customary. The credit applies regardless of whether the food is consumed on or off the business premises. Use Form 8846 to claim the credit. The following conditions must both be met.

- The employer had employees who received tips from customers for providing, delivering, or serving food or beverages for consumption if tipping of employees for delivering or serving food or beverages is customary.
- During the tax year, the employer paid or incurred employer Social Security and Medicare (FICA) taxes on those tips.

For food and beverage establishment employees, the credit equals the amount of employer Social Security and Medicare taxes paid or incurred by the employer on tips received by the employee, less tips used to meet the federal minimum wage in effect on January 1, 2007 (\$5.15 per hour).

OBBBA Beauty service business. For tax years beginning after 2024, the credit is expanded to include the tipping of employees in the following service industries.

- Barbering and hair care,
- Nail care,
- Esthetics, and
- Body and spa treatments.

For beauty service businesses, apply the current federal minimum wage of \$7.25 per hour rather than the federal minimum wage in effect on January 1, 2007 (\$5.15 per hour). [IRC §45B(b)(1)(B)]

Wages/Tips Reported	Credit Amount
Regular wages up to \$5.15 per hour (\$7.25 beauty service).	No credit.
Tips used to reach \$5.15 per hour (\$7.25 beauty service).	No credit.
Tips above \$5.15 per hour (\$7.25 beauty service).	Credit for employer FICA taxes paid.

Deduction reduced by credit. Reduce the income tax deduction for employer Social Security and Medicare taxes by the applicable credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Example: Tina, a tipped restaurant employee, worked 100 hours for her employer in 2025 at a rate of \$3.75 per hour for total earnings of \$375. She also received \$450 in tips from customers and reported these tips to her employer. Tina's total earnings for the period were \$825 (\$375 wages plus \$450 tips).

Tina would have received \$515 if she had been paid the minimum wage in effect on January 1, 2007 (\$5.15 per hour). Tina's employer can claim a tax credit equal to the FICA taxes paid on \$310 in tips.

Hourly wage	\$375
Tips needed to make minimum wage.....	140
Minimum wage (January 1, 2007)	<u>\$515</u>
Tips reported.....	\$450
Less tips needed to make minimum wage.....	(140)
Amount available to compute credit.....	<u>\$310</u>

Credit for Increasing Research Activities (Form 6765)

The credit is allowed for expenditures paid or incurred for qualified research associated with a trade or business. Qualified research for purposes of the credit is the same as research and experimental activities eligible for amortization under IRC section 174. The research must be undertaken for discovering information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. Substantially all the activities of the research must be elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality.

These expenses may also be allowable for amortization. However, the allowable amortization must be reduced by the expense used to compute the credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6. Also see *Research and Experimental Expenditures*, Tab 18.

Excluded activities. The credit for increasing research activities is not allowed for the following.

- Research conducted after the beginning of commercial production.
- Research adapting an existing product or process to a particular customer's need.
- Duplication of an existing product or process.
- Surveys or studies.
- Research relating to certain internal-use computer software.

- Research conducted outside the United States, Puerto Rico, or a U.S. territory.
- Research in the social sciences, arts, or humanities.
- Research funded by another person or government entity.

Taxpayers incurring qualified clinical testing expenses relating to drugs for certain rare diseases may elect to claim the orphan drug credit for these expenses instead of the research credit. See *Orphan Drug Credit (Form 8820)*, page 31-16.

The Credit for Increasing Research Activities is allowed to offset alternative minimum tax (AMT).

Payroll tax credit election. Qualified small businesses may annually elect to apply up to \$500,000 of the Credit for Increasing Research Activities against the employer portion of Social Security taxes and Medicare taxes. The credit is the smallest of the current year research credit, an elected amount not to exceed \$500,000, or the general business credit carryforward for the tax year (before application of the payroll tax credit election for the tax year).

Qualified small business. A qualified small business is a corporation (including an S corporation) or partnership with:

- 1) Gross receipts of less than \$5 million for the tax year, and
- 2) No gross receipts for any tax year before the 5-tax-year period ending with the tax year.

A qualified small business does not include a tax-exempt organization.

Any other person may be considered a qualified small business if the person meets the requirements of (1) and (2) above, taking into account the aggregate gross receipts received in all the trades or businesses.

Gross receipts. Gross receipts include total sales net of returns and allowances, and all amounts received for services. Additionally, gross receipts include any income from investments as well as incidental or outside sources. If the trade or business had a tax year of less than 12 months, gross receipts must be annualized by multiplying the gross receipts for the short period by 12 and dividing the result by the number of months in the short period.

Partnerships and S corporations. The election made by a partnership or S corporation is made at the entity level. Note that the general business credit carryforward limitation does not apply to partnerships or S corporations.

Electing the payroll tax credit. The election must be made on or before the due date of the originally filed income tax return (including extensions). The election cannot be made for a tax year if an election was made for five or more preceding tax years. Any election to take the payroll tax credit may be revoked only with IRS consent.

The election and determination of the credit amount are made on Form 6765, *Credit for Increasing Research Activities*. The amount of credit that can be used in the current quarter is determined on Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*. The credit amount from Form 8974 is then reported on Form 941, *Employer's Quarterly Federal Tax Return*, Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*, or Form 944, *Employer's Annual Federal Tax Return*. Form 8974 must be attached to Form 941, 943, or 944.

Credit for Small Employer Health Insurance Premiums (Form 8941)

This credit is designed to encourage small employers to offer health insurance coverage or to maintain the coverage they already have.

- The maximum credit is 50% of premiums paid (35% for small tax-exempt organizations).

continued on next page

- The employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace.
- The credit is available to eligible employers for two consecutive tax years beginning with the first taxable year in which the employer offers one or more qualified health plans to its employees through a SHOP Marketplace.
- The credit can be taken against both regular and alternative minimum tax.

Credit features. Small business employers that do not owe tax can carry the credit back or forward to other tax years. Employers can claim a business expense deduction for the premiums in excess of the credit. The credit is refundable for small tax-exempt employers to the extent it does not exceed income tax withholding and Medicare tax liability.

Credit reduction. The credit may be reduced by limitations based on the employer's full-time equivalent employees, average annual wages, state average premiums, and state premium subsidies and tax credits.

Eligible small business employer. An eligible small business employer is any employer who:

- Employed fewer than 25 full-time equivalent employees (FTEs) for the tax year,
- Paid annual wages averaging less than \$67,000 (2025) per FTE, and
- Paid health insurance premiums purchased through the SHOP Marketplace. If insurance is no longer offered through SHOP after the initial year, an exception may apply. (IRS Notice 2018-27)

Tax-exempt organizations can qualify as eligible small business employers under the same rules.

Full-time equivalent employees (FTEs). The number of an employer's FTEs is determined by dividing the total hours of service for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by 2,080. The result, if not a whole number, is then rounded to the next lowest whole number. For example, 10.99 is rounded down to 10.

Hours of service. An employee's hours of service for a tax year include each hour for which the employee is paid or entitled to payment for the following.

- The performance of duties for the employer, and
- Paid leave (including vacation, holiday, illness, incapacity, disability, layoff, jury duty, military duty, or leave of absence). Do not count more than 160 hours of service per employee for each continuous period of leave.

Do not include hours of service of any seasonal employee who worked 120 or fewer days during the tax year.

Average annual wages. Average annual wages for the tax year are calculated by dividing the total wages paid by the employer to all individuals considered employees by the number of employer's FTEs. The result is then rounded down to the nearest \$1,000. Wages for this purpose mean wages as defined for FICA purposes (without regard to the wage base limitation).

Employer premiums paid. Only premiums paid by the employer for employees health insurance coverage purchased through a SHOP Marketplace under a qualifying arrangement are counted in calculating the credit.

Qualifying arrangement. An arrangement that requires the employer to pay a uniform percentage (not less than 50%) of the premium cost of each enrolled employee's health insurance coverage.

Salary reduction arrangement. Any premiums paid through a salary reduction arrangement under an IRC section 125 cafeteria plan is not treated as an employer-paid premium.

State average premium limitation. The credit is reduced if the employer premiums paid are more than the employer premiums that would have been paid if the employees were enrolled in a plan with a premium equal to the average premium for the small group market in the state in which the employee works. The state average premium is determined by the Department of Health and Human Services and published in the instructions for Form 8941.

Individuals considered employees. Generally, all employees who perform services during the tax year are taken into account in determining FTEs, average annual wages, and premiums paid. The following individuals are not considered employees when calculating this credit.

- The owner of a sole proprietorship.
- A partner in a partnership.
- A more than 2% S corporation shareholder.
- A more than 5% owner in any other business.
- Family members (including spouses) of any of the individuals listed above.

Hours and wages of these employees and premiums paid are not counted when computing the credit.

Payroll tax limitation for tax-exempt small employers. The credit for tax-exempt small employers cannot exceed the amount of certain payroll taxes. Payroll taxes, for this purpose, mean only the following taxes.

- Federal income taxes the employer was required to withhold from employees' wages,
- Medicare taxes the employer was required to withhold from employees' wages, and
- Medicare taxes the employer was required to pay.

Phaseout. The credit phases out gradually for employers with average wages between \$33,000 and \$67,000 (2025) and for employers with the equivalent of between 10 and 25 full-time workers.

Claiming the credit. The credit is calculated on Form 8941, *Credit for Small Employer Health Insurance Premiums*. Small businesses include the amount of the credit as part of the general business credit on its tax return. Tax-exempt organizations claim the credit on Form 990-T, *Exempt Organization Business Income Tax Return*.

Deduction reduced by credit. The deduction for the cost of providing health insurance coverage must be reduced by the amount of any credit allowed. See *Reducing Certain Expenses for Which Credits are Allowable*, page 31-6.

Credit for Small Employer Pension Plan Startup Costs, Contributions, Auto-Enrollment, and Military Spouse Participation (Form 8881)

Credit for Small Employer Pension Plan Startup Costs. Eligible small employers can claim a credit for qualified startup costs paid or incurred during the tax year. The credit is 50% (100% for small employers with 50 employees or less) of qualified pension plan startup costs and generally limited to the greater of \$500 or \$250 for each non-highly-compensated employee eligible to participate in the plan, up to a \$5,000 maximum limit for the first tax year and each of the following two tax years.

Qualified start-up costs. Qualified start-up costs are expenses paid or incurred in connection with establishing or administering an eligible employer plan or the retirement-related education of employees about the plan. These costs can include items such as payroll system changes, investment setup fees, and consulting fees.

Eligible small employer. An eligible small employer is an employer that had no more than 100 employees who received at least \$5,000 of compensation during the tax year preceding the first credit year. An employer is not an eligible small employer if, during the three tax years preceding the first year the credit would

otherwise be allowable, the employer established or maintained a qualified employer plan for the benefit of substantially the same employees that are in the new employer plan.

Eligible employer plan. An eligible employer plan may be a defined benefit or defined contribution plan with at least one eligible employee who is not a highly-compensated employee (e.g., compensation over \$160,000 for 2025). Eligible plans include 401(k) plans, SIMPLE plans, or SEPs.

First credit year election. The first credit year generally is the first tax year that includes the date the eligible employer plan becomes effective. However, the taxpayer may elect to have the preceding tax year be the first credit year and claim the credit for qualified start-up costs paid or incurred during that tax year. For example, a calendar-year eligible small employer whose eligible plan is first effective on January 1, 2025, may elect to treat 2024 as the first credit year and claim the credit on its 2024 tax return for qualified start-up costs incurred in 2024.

Deduction reduced by credits. Reduce otherwise allowable deduction for startup costs by credit amount for startup costs and employer contribution credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Employer Contributions Credit. An additional credit is available for employer contributions (not employee elective deferrals) to an eligible employer plan, but not for employer contributions on behalf of an employee who receives wages during the tax year in excess of \$105,000 (2025).

For an eligible small employer, the credit is an applicable percentage of qualifying employer contributions, up to \$1,000 per employee, made by an eligible employer for the first tax year during which the plan becomes effective with respect to the eligible employer and the succeeding four tax years. The applicable percentage is 100% for the first and second years, 75% for the third year, 50% for the fourth year, and 25% for the fifth year. For any tax year, the applicable percentage (subject to the maximum \$1,000 per employee limitation) is reduced by 2% for each employee in excess of 50 employees during the preceding tax year as the credit phases out for employers with 51-100 employees. No credit is available for employers with 100 or more employees.

For employer contributions over \$1,000 for any employee, first determine the amount of contributions made for each individual employee for the tax year. Do not include contributions greater than \$1,000 per employee (first and second years), \$1,333 per employee (third year), \$2,000 per employee (fourth year), and \$4,000 per employee (fifth year).

Auto-Enrollment Credit. Eligible small employers can claim a \$500 credit for the first tax year that an automatic contribution arrangement is included in an eligible employer plan. The \$500 credit is available for each of the following two tax years, provided the employer continues to maintain the arrangement.

Military Spouse Participation Credit. Eligible small employers can claim a \$200 credit for each military spouse employee who participates in the employer's eligible defined contribution plan at any time during the tax year, plus up to \$300 of the amount of employer contributions (not employee elective deferrals) to the plan during the tax year on behalf of the military spouse. For each employee, the credit is limited to three successive tax years of the employer, beginning with the first tax year during which the employee began participating in the plan after it was adopted as, or amended to be, an eligible defined contribution plan.

Eligible defined contribution plan. An eligible defined contribution plan is any defined contribution plan of the eligible small employer under which military spouses employed by the employer are eligible to participate in the plan not later than two months after the military spouse begins employment and, upon such participation, are immediately eligible to receive the same

amount of employer contributions under the plan that a similarly situated participant who is not a military spouse would be eligible to receive under the plan after two years of service, and immediately have a non-forfeitable right to the military spouse's accrued benefit derived from employer contributions under the plan.

Military spouse. A military spouse is an employee of the eligible small employer who is not highly compensated and, as of the first date that the employee is employed or rehired by the employer, is married to a member of the uniformed services serving on active duty. Employers may rely on an employee's certification that the employee's spouse is a member of the uniformed services if such certification provides the name, rank, and service branch of the spouse.

Disabled Access Credit (Form 8826)

An eligible small business may claim the Disabled Access Credit for expenses associated with making a business accessible to people with a disability. The credit equals 50% of eligible expenses up to a maximum credit of \$5,000.

Deduction reduced by credit. If the Disabled Access Credit is claimed, the regular allowable deduction for eligible access expenditures is reduced by the amount of the credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Eligible expenditures. Eligible access expenditures are amounts paid to comply with requirements of the Americans with Disabilities Act of 1990 (ADA), as in effect on November 5, 1990.

Expenses eligible for the Disabled Access Credit include amounts paid or incurred:

- 1) To remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities,
- 2) To provide qualified interpreters or other methods of making audio materials available to individuals who are hearing-impaired,
- 3) To provide qualified readers, taped texts, and other methods of making visual materials available to individuals who are visually impaired, or
- 4) To acquire or modify equipment or devices for individuals with disabilities.

Eligible expenditures do not include expenditures in (1), above, that are paid or incurred in connection with any facility first placed in service after November 5, 1990.

For information about ADA standards, see www.access-board.gov.

Eligible small business. An eligible small business is a business or person who had gross receipts for the preceding tax year that did not exceed \$1 million or had no more than 30 full-time employees during the preceding tax year. An employee is considered full-time if employed at least 30 hours per week for 20 or more calendar weeks in a tax year.

Distilled Spirits Credit (Form 8906)

The Distilled Spirits Credit may be claimed by an eligible wholesaler or by a taxpayer that is subject to the alcohol excise tax under IRC §5005 (distillers and importers of distilled spirits) but is not an eligible wholesaler.

Eligible wholesaler. An eligible wholesaler is any person who holds a permit under the Federal Alcohol Administration Act as a wholesaler of distilled spirits and is not a state or political subdivision thereof, or an agency of either.

Computation of credit. The credit for the year is computed by multiplying the number of cases of bottled distilled spirits purchased or stored during the tax year by the average tax-financing cost per case for the most recent calendar year ending before the beginning of the tax year.

Number of cases of distilled spirits. An eligible wholesaler uses the number of cases of distilled spirits that were bottled in the United States and purchased during the year directly from the bottler of the spirits.

A non-eligible wholesaler uses the number of cases of distilled spirits that were stored in a warehouse operated by, or on behalf of, a state or any political subdivision thereof, or an agency of either, and for which title has not passed on an unconditional basis.

Case. For purposes of this credit, a case consists of 12 80-proof 750-milliliter bottles. For any lot of distilled spirits that does not consist of cases of 80-proof 750-milliliter bottles, compute the number of cases as follows.

- 1) Divide the number of liters in the lot by nine.
- 2) Multiply the result by a fraction, the numerator of which is the stated proof of the lot and the denominator of which is 80.
- 3) The result is the number of cases in the lot.

Example: Bartholomew purchased a lot of 90 500-milliliter bottles of 150-proof rum. The number of liters in the lot is 45 (0.5 liters x 90). Divide 45 by 9 and the result is 5. Multiply 5 by 150/80. The result is 9.375, which is the number of cases in the lot.

Average tax-financing cost. The average tax-financing cost per case is 0.29717 (2025).

Partnerships and S corporations. Partnerships and S corporations must file Form 8906, *Distilled Spirits Credit*, to claim the credit. All other taxpayers are not required to complete or file the form if their only source for this credit is a partnership or S corporation. Instead, they can report the credit directly on Form 3800, *General Business Credit*.

Employer Credit for Paid Family and Medical Leave (Form 8994)

An eligible employer can claim a business credit ranging from 12.5% to 25% of certain wages paid to a qualifying employee while the employee is on family and medical leave. The credit amount of 12.5% applies if the rate of payment is 50% of normal wages. The credit increases by 0.25 percentage points for each percentage point by which the rate of payment exceeds 50% up to a maximum credit of 25% if the employer's rate of payment is 100% of normal wages.

Deduction reduced by credit. Reduce the deduction for salaries and wages and any capitalized costs by the credit amount, even if the full credit cannot be used due to tax liability limit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Eligible employer. An eligible employer must have a written policy in place that allows all qualifying full time employees not less than two weeks of annual paid family and medical leave, and which allows part-time qualifying employees a pro rata amount of leave. The written policy may not exclude any classification of employee. The policy must require a rate of payment of at least 50% of normal wages.

Qualifying employee. A qualifying employee is an employee who has been employed by the employer for one year or more and whose compensation for the previous year does not exceed 60% of the compensation threshold for that year for highly compensated employees ($\$155,000 \times 60\% = \$93,000$ in 2025). An employee is not required to work a minimum numbers of hours per year to be a qualifying employee.

Family and medical leave. Family and medical leave is leave taken for purposes defined in the Family and Medical Leave Act (FMLA). Paid leave made available to an employee is qualifying leave only if it is specifically designated for one of these purposes.

- The birth and care of a child.
- Adoption or foster care of a child.

- Caring for a spouse, child, or parent with a serious health condition.
- An employee's serious health condition that makes the employee unable to perform the functions of the position.
- A qualifying exigency arising out of the fact that a spouse, child, or parent is a member of the U.S. Armed Services and is on covered active duty.
- Caring for a servicemember with a serious injury or illness if the employee is the spouse, child, parent, or next of kin of the servicemember.

See the instructions for Form 8994 for details, worksheets, and documentation requirements.

OBBBA The OBBBA made changes to the Employer Credit for Paid Family and Medical Leave for tax years beginning after 2025. For more information, see *What's New*, Tab 1.

Empowerment Zone Employment Credit (Form 8844)

For tax years 2021 through 2025, a qualified employer may claim a 20% credit of qualified zone wages (up to \$15,000) paid or incurred during the calendar year for services performed by a qualified zone employee.

Qualified zone employee. A qualified zone employee is any employee (full-time or part-time) who resides in, and performs substantially all of the services for, an employer within an Empowerment Zone. For a list of nonqualified employees and qualified Empowerment Zones, see the Instructions for Form 8844, *Empowerment Zone Employment Credit*.

Deduction reduced by credit. Reduce the employer income tax deduction for salaries and wages and certain educational and training costs by the amount of the current year credit. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Energy Efficient Home Credit (Form 8908)

An eligible contractor may claim this credit for a qualified new energy efficient home that is acquired by an individual from that contractor during the tax year for use as a residence.

OBBBA The termination date for the new energy efficient home credit has been changed from December 31, 2032 to June 30, 2026. Homes acquired after June 30, 2026, will not qualify for the credit.

Qualified new energy efficient home. A qualified new energy efficient home is a dwelling unit that meets the following requirements.

- Located in the United States,
- Construction is substantially completed after August 8, 2005, and sold or leased to another person before June 30 2026, for use as a residence,
- Certified to meet certain energy savings requirements, and
- Construction includes substantial reconstruction and rehabilitation.

Eligible contractor. An eligible contractor is the person or business that constructed a qualified energy-efficient home (or produced a qualified energy-efficient home that is a manufactured home). The person or business must own and have a basis in the qualified energy-efficient home during its construction to qualify as an eligible contractor. If the person that hires a third-party contractor to construct the home owns and has the basis in the home during construction, the person that hires the third-party contractor is the eligible contractor, and the third-party contractor is not an eligible contractor.

Example: Bill owns a lot on which he builds a home that meets the energy efficient standard. Even if he is planning to sell the home, he qualifies as an eligible contractor because he owns the home during its construction.

Example: Kim hires Bill to build a qualifying home on her property. Kim owns the home while it is being constructed. Kim is the eligible contractor. Bill is a third-party contractor and not eligible for the credit.

Energy savings requirements and credit amounts. The credit amount is based on the extent to which each new energy efficient home meets the following energy savings requirements. The home must be sold or leased to another person for use as a residence during the tax year.

\$2,500 credit. A \$2,500 credit is available for each eligible home that is not certified as a Zero Energy Ready Home but that meets the following requirements:

- Energy Star Residential New Construction Program,
- Energy Star Manufactured New Homes Program, or
- Energy Star Multifamily New Construction Program (if prevailing wage requirements are met). If prevailing wage requirements are not met, then each home qualifies for a \$500 credit.

\$5,000 credit. A \$5,000 credit is available for each eligible home that is certified as a Zero Energy Ready Home and that meets the following requirements:

- Energy Star Residential New Construction Program,
- Energy Star Manufactured New Homes Program, or
- Energy Star Multifamily New Construction Program (if prevailing wage requirements are met). If prevailing wage requirements are not met, then each home qualifies for a \$1,000 credit.

Prevailing wage and apprenticeship requirements. See *Prevailing wage and apprenticeship (PWA) requirements*, page 31-13.

New for 2025 Form 7220, *Prevailing Wage and Apprenticeship (PWA) Verification and Corrections*, must be attached to the tax return to provide the required information when claiming the increased credit amounts on lines 3b or 4b of Form 8908.

Certification. An eligible contractor must obtain a certification that the dwelling unit meets the requirements of IRC section 45L(c) from an eligible certifier before claiming the credit.

Enhanced Oil Recovery Credit (Form 8830)

An owner of an operating mineral interest may claim, or elect not to claim, this credit any time within three years from the due date (excluding extensions) of its return on either its original or an amended return.

Amount of credit. The credit is 15% of qualified costs for the tax year, but is reduced when the reference price per barrel of crude oil is more than the base value of \$28, as adjusted by inflation.

Because the reference price for the 2024 calendar year, \$74.48, is more than \$28 multiplied by the inflation adjustment factor for the 2025 calendar year ($\$28 \times 2.1115 = \59.12). The 2025 credit rate is zero. (Notice 2025-32)

Investment Credit (Form 3468)

The Investment Credit consists of several different credits combined.

Credits combined. The Investment Credit is available for depreciable or amortizable property that qualifies for the:

- Qualifying Advanced Coal Project Credit,
- Qualifying Gasification Project Credit,
- Qualifying Advanced Energy Project Credit,
- Advanced Manufacturing Investment Credit,
- Clean Electricity Investment Credit,
- Energy Credit, or
- Rehabilitation Credit.

Excluded property. The following property is generally not eligible for the Investment Credit.

- Property used mainly outside the United States.
- Property used primarily for lodging or furnishing of lodging.

- Property used by a governmental unit or foreign person or entity.
- Certain MACRS business property to the extent it has been expensed under Section 179.

Form 3468, Investment Credit. A separate Form 3468 is used to claim an investment credit for each facility or property. The form consists of the following parts.

- **Part I – Information on Qualified Property or Qualified Facility.** Part I requests information on the property or facility, to determine if the property, facility, or project meets the wage and apprenticeship requirements and qualifies for certain bonus credits, and if an elective payment election or credit transfer election is being made.
- **Part II – Qualifying Advanced Coal Project Credit and Qualifying Gasification Project Credit.** Enter the qualified investments to calculate the applicable credit amounts under IRC section 48A or IRC section 48B.
- **Part III – Qualifying Advanced Energy Project Credit Under Section 48C.** Enter the qualified investments to calculate the credit amount under IRC section 48C. No investment credit can be claimed if also claimed for a credit under IRC section 45X. See *Advanced Manufacturing Production Credit (Form 7207)*, page 31-6.
- **Part IV – Advanced Manufacturing Investment Credit Under Section 48D.** Enter the basis of qualified investments in a qualifying semiconductor manufacturing facility or a semiconductor equipment manufacturing facility to compute the credit amount under IRC section 48D.
- **Part V – Clean Electricity Investment Credit Under Section 48E.** Enter the basis of qualified investments for a qualified facility that produces or stores clean electricity. Replaces the Renewable Electricity Production Credit (IRC §45) for facilities placed in service after December 31, 2024. See *Renewable Electricity Production Credit (Form 8835)*, page 31-16.
- **Part VI – Energy Credit Under Section 48.** The Energy Credit under IRC section 48 includes the following credits: Geothermal Energy Credit, Solar Energy Credit, Qualified Fuel Cell Property Credit, Qualified Microturbine Property Credit, Combined Heat and Power System Property Credit, Qualified Small Wind Energy Property Credit, Waste Energy Recovery Property Credit, Geothermal Heat Pump Systems Credit, Energy Storage Technology Property Credit, Qualified Biogas Property Credit, Microgrid Controllers Property Credit, Qualified Investment Credit Facility Property Credit, and Clean Hydrogen Production Facilities as Energy Property Credit.
- **Part VII – Rehabilitation Credit Under Section 47.** Enter qualified rehabilitation expenditures to compute the credit amount under IRC section 47. See *Rehabilitation Credit*, page 31-15.

For additional information on the above credits, see *Energy Credits Chart*, page 31-14.

Credit transfers. Eligible taxpayers, partnership, and S corporations can elect to transfer all or part of the credit computed in Parts III, V, and VI, of Form 3468 to an unrelated third-party buyer in exchange for cash. See *Credit transfer election*, page 31-4.

Recapture of the credit. A taxpayer may have to recompute the Investment Credit and recapture all or a portion of the credit if:

- The investment credit property is disposed of before the end of five full years after the property was placed in service (recapture period),
- The use of the property is changed before the end of the recapture period so it no longer qualifies as investment credit property, or
- The business use of the property decreases before the end of the recapture period so that it no longer qualifies (in whole or in part) as investment credit property.

See the Instructions for Form 3468 for a complete list of reasons that the credit may have to be recaptured.

Exceptions. Exceptions to the recapture of the Investment Credit include:

- A transfer due to death of the taxpayer, and
- A transfer between spouses or incident to divorce.

See the Instructions for Form 3468 for a complete list of exceptions to recapture of the credit.

Form 4255, Certain Credit Recapture, Excessive Payments, and Penalties. Any required recapture of the Investment Credit is reported on Form 4255.

Bonus incentive credits. Qualifying energy projects that also meet other specific criteria may be eligible for additional bonus credits that increase the energy credit amount. A statement for each facility or property must be attached to the return if claiming an increased credit amount. For statement requirements, see Form 3468 Instructions.

Clean electricity low-income communities bonus credit. This bonus credit increases the clean electricity investment tax credit for applicable energy facilities with maximum net output of less than five megawatts by the following amounts.

- 10% if located in a low-income community.
- 10% if located on Indian land.
- 20% if a qualified low-income residential building project.
- 20% if a qualified low-income economic benefit project.

See *Energy Credits Chart*, page 31-14.

Energy communities bonus credit. This bonus credit increases the energy credit amount for certain facilities built in a qualified energy community census tract. See *Energy Credits Chart*, page 31-14.

An energy communities bonus credit of 10% (instead of 2%) applies if any of the following is met for the energy project.

- It has a maximum net output of less than 1 megawatt or electrical (as measured in alternating current) or thermal energy,
- Construction began before January 29, 2023, or
- The energy project meets the prevailing wage and apprenticeship requirements. See *Prevailing wage and apprenticeship (PWA) requirements*, below.

Domestic content bonus credit. This bonus credit increases the energy credit amount if any steel, iron, or manufactured product that is a component of the facility is certified as being produced in the United States. See *Energy Credits Chart*, page 31-14.

A domestic content bonus credit of 10% (instead of 2%) applies if any of the following is met for the energy project.

- It has a maximum net output of less than 1 megawatt or electrical (as measured in alternating current) or thermal energy,
- Construction began before January 29, 2023, or
- The energy project meets the prevailing wage and apprenticeship requirements. See *Prevailing wage and apprenticeship (PWA) requirements*, below.

Prevailing wage and apprenticeship (PWA) requirements. Certain clean energy tax credit base amounts are increased by five times for projects that meet PWA requirements. To qualify for an increased credit, a taxpayer (or any contractor or subcontractor) generally needs to:

- Pay laborers and mechanics employed on the construction, alteration, or repair of a qualified facility no less than applicable prevailing wage rates.
- Employ apprentices from registered apprenticeship programs for a certain number of hours.

There are limited exceptions where taxpayers may be eligible to claim the 5-times increase without meeting PWA requirements:

- Certain small facilities that produce clean energy under 1 megawatt, or
- Facilities that began construction before January 29, 2023.

Prevailing wage requirements. The U.S. Department of Labor (DOL) determines the applicable prevailing wage requirements for each class of laborers and mechanics in a prescribed geographic area for a particular type of construction. A prevailing wage is the combination of the basic hourly wage rate, and any fringe benefits listed in an applicable wage determination. General wage determinations are published by the Wage and Hour Division of DOL and available online at: www.sam.gov/content/wage-determinations.

Apprenticeship requirements. The apprenticeship requirements for any qualified facility include three components.

- 1) **Labor hours requirement.** The taxpayer must ensure that a minimum percentage of the total labor hours performed on the construction, alteration, or repair of a facility are performed by qualified apprentices from a registered apprenticeship program. The applicable percentage is 10% for construction beginning before 2023, 12.5% for construction beginning in 2023, and 15% for construction beginning in 2024 or after.
- 2) **Ratio requirement.** The taxpayer must ensure that the applicable ratio of apprentices to journeyworkers established by the registered apprenticeship program are met for apprentices working on the facility each day.
- 3) **Participation requirement.** Any taxpayer, contractor, or subcontractor that employs four or more individuals at any time during the course of the construction, alteration, or repair of the facility must hire at least one qualified apprentice.

The apprenticeship requirements apply only with respect to construction, alteration, or repair of a facility that occurs prior to the facility being placed in service. There are no apprenticeship requirements with respect to alterations or repairs after a facility is placed in service.

Recordkeeping. Taxpayers claiming the increased credit amount using the PWA requirements must maintain and preserve records necessary to demonstrate compliance with the applicable PWA requirements. Examples include each laborer or mechanic's hourly rates, hours worked, labor classification, deductions from wages, and actual wages paid, among other records.

Corrections and penalties. Taxpayers who initially fail to meet the PWA requirements may still be able to claim the increased credit amounts by making certain correction and penalty payments. In general, for failures of the prevailing wage requirements, taxpayers must make correction payments for any underpaid wages, plus interest, to the affected laborers and mechanics, and make a penalty payment. For the apprenticeship requirements, unless they qualify for the good faith effort exception, taxpayers must make a penalty payment. Enhanced correction and penalty amounts apply when the taxpayer's failure is due to intentional disregard. Penalties are computed on Form 4255, *Certain Credit Recapture, Excessive Payments, and Penalties*.

Applicable credits. The prevailing wage and apprenticeship requirements apply to the following credits and deduction.

- Alternative Fuel Refueling Property Credit.
- Renewable Electricity Production Credit.
- Clean Electricity Production Credit.
- Carbon Oxide Sequestration Credit.
- Clean Hydrogen Production Credit.
- Clean Fuel Production Credit.
- Energy Credit.
- Clean Electricity Investment Credit.
- Qualifying Advanced Energy Project Credit.
- Energy Efficient Commercial Buildings Deduction.

Only the prevailing wage requirements apply to:

- New Energy Efficient Home Credit.
- Zero-Emission Nuclear Power Production Credit.

continued on page 31-15

Energy Credits Chart

Credit	Description	Credit Amount	Bonus Credit¹	Basis Reduction
Qualifying Advanced Coal Project Credit (IRC §48A)	Projects that use advanced coal-based generation technology to power a new or repower an existing electric generation unit.	15%, 20%, or 30% of the qualified investment.	None.	If financed by subsidized energy financing or by tax-exempt bonds.
Qualifying Gasification Project Credit (IRC §48B)	Projects that employ gasification technology by an eligible entity.	20% or 30% of the qualified investment.	None.	If financed by subsidized energy financing or by tax-exempt bonds.
Qualifying Advanced Energy Project Credit (IRC §48C)	<ul style="list-style-type: none"> Qualifying projects re-equip, expand, or establish a facility to produce or recycle specified advanced energy property. Process, refine, or recycle critical materials. Install technology in a facility to reduce greenhouse gas emissions. 	30% (or 6%) ¹ of the qualified investment. Elections. ² OBBBA Beginning on July 4, 2025, any allocation of the credit that is revoked may not be reallocated to another taxpayer.	None.	If financed by subsidized energy financing or by tax-exempt bonds.
Advanced Manufacturing Investment Credit (IRC §48D)	<ul style="list-style-type: none"> Manufacturing facilities for semiconductors for semiconductor manufacturing equipment Does not include buildings unrelated to manufacturing. 	25% (2025) of the basis of the qualified investment. Election available for EPE only. ²	None.	By the amount of the credit. Coordination with rehabilitation credit is required.
Clean Electricity Investment Credit (IRC §48E)	Facilities generating electricity from renewable sources. Note: Replaces the Energy Credit (IRC §48) for facilities that begin construction and are placed in service after December 31, 2024.	30% (or 6%) ¹ of the qualified investment. Elections. ² OBBBA For tax years beginning after July 4, 2025, the credit no longer applies to specified foreign entities or foreign-influenced entities.	<ul style="list-style-type: none"> 10% (or 2%) bonus for domestic content. 10% (or 2%) bonus for energy communities. 10% bonus for low-income communities (20% bonus for low-income residential building or economic benefit projects). 	If financed by subsidized energy financing or by tax-exempt bonds.
Energy Credit (IRC §48)	<ul style="list-style-type: none"> Geothermal Energy Credit.³ Solar Energy Credit.³ Qualified Fuel Cell Property. Qualified Microturbine Property.³ Combined Heat and Power System Property. Qualified Small Wind Energy Property. Waste Energy Recovery Property. Geothermal Heat Pump Systems. Energy Storage Technology Property. Qualified Biogas Property. Microgrid Controllers Property. Qualified Investment Credit Facility Property. Clean Hydrogen Production Facilities as Energy Property. 	<ul style="list-style-type: none"> Generally, 30% (or 6%)¹ of the basis of the property. For the following Energy Credits, the credit amount is based on dollar values, power capacity, or other factors. See instructions for Form 3468 for: <ul style="list-style-type: none"> Qualified Microturbine Property. Combined Heat and Power System Property. Qualified Small Wind Energy Property. Clean Hydrogen Production Facilities as Energy Property. Elections. ²	As applicable: <ul style="list-style-type: none"> 10% (or 2%) bonus for domestic content. 10% (or 2%) bonus for energy communities. 10% bonus for low-income communities (20% bonus for low-income residential building or economic benefit projects). 	By 50% of the energy credit if financed by tax-exempt bonds.
Rehabilitation Credit (IRC §47)	Qualified rehabilitation expenditures to a qualified rehabilitation building.	100% of qualified rehabilitation expenditures ratably over a 5-year period.	None.	By 100% of the credit.
Renewable Electricity Production Credit (IRC §45)	Renewable energy from wind, biomass, geothermal, solar, landfill and trash, hydropower, and marine and hydrokinetic energy produced at qualified facilities.	Credit amounts vary by energy type. Elections. ²	<ul style="list-style-type: none"> Credit multiplied by 5 if PWA requirements met. 10% bonus for domestic content. 10% bonus for an energy community. 	If financed by tax-exempt bonds.

¹ Applicable higher percentage applies if specified requirements are met. See *Bonus incentive credits*, page 31-13.

² Elections available for EPE and credit transfer election. See *Elective payment election (EPE)*, page 31-3, and *Credit transfer election*, page 31-4.

³ The credit is eliminated for property of which construction begins on or after June 16, 2025.

continued from page 31-13

Energy credits chart. A summary of certain investment credits is provided, page 31-14. Most of the credits qualify for either a 30% or 6% credit depending on whether the prevailing wage and apprenticeship requirements are satisfied. In addition, some credits qualify for a bonus credit for meeting criteria such as domestic content, energy communities, and low-income communities. For more information, see *Bonus incentive credits*, page 31-13.

Rehabilitation Credit. The Rehabilitation Credit is a credit for qualified rehabilitation expenditures made to a qualified rehabilitation building. The basis of the building must be reduced by the amount of the credit.

A 20% credit for a certified historic structure generally allows 100% of qualified rehabilitation expenditures ratably over a 5-year period. See the Instructions for Form 3468 for transitional rules that apply, the requirements for qualified buildings, and qualified rehabilitation expenditures.

Partnership allocation safe harbor. Revenue Procedure 2014-12 (as modified by TD 9776) establishes a safe harbor under which the IRS will not challenge partnership allocations of the Rehabilitation Credit by a partnership to its partners.

Election to claim expenditures. For credit purposes, the expenditures are generally taken into account for the tax year in which the qualified rehabilitated building is placed in service. However, with certain exceptions, the taxpayer may elect to take the expenditures into account for the tax year in which they were paid (or, for a self-rehabilitated building, when capitalized) if the normal rehabilitation period for the building is at least two years, and it is reasonable to expect the building will be a qualified rehabilitated building when placed in service. The election is made by checking the box on line 1c, Part VII, Form 3468.

Low-Income Housing Credit (Form 8586)

The Low-Income Housing Credit is allowed for each new qualified low-income building placed in service. Generally, the credit is taken over a 10-year credit period.

Taxpayers, other than partnerships, S corporations, estates, or trusts, whose only source of this credit is from those pass-through entities, are not required to complete or file Form 8586 and can instead report the credit directly on Form 3800.

Reporting the credit. Report the credit on Form 8586, which flows to Form 3800 and is reported on:

- Line 2b, Part IV, Form 3800 for pre-2008 credits that are carried over to tax year 2025, or
- Line 4d, Part IV, Form 3800 for post-2007 credits that are carried over to tax year 2025.

Qualified low-income housing project. The low-income housing credit can only be claimed for residential rental buildings that meet one of the minimum set-aside tests. For more information, see the instructions for Form 8609, *Low-Income Housing Credit Allocation and Certification*.

Recapture of the credit. There is a 15-year compliance period during which the residential rental building must continue to meet certain requirements. At the close of any tax year in this period, all or a part of the credit may have to be recaptured if:

- There is a reduction in the basis of the building from the previous year, or
- Upon certain dispositions of the building or interests therein unless procedures are followed to prevent recapture.

If the credits must be recaptured use Form 8611, *Recapture of Low-Income Housing Credit*.

Form 8609, Low-Income Housing Credit Allocation and Certification. Use Form 8609 to obtain a housing credit allocation from the housing credit agency. A separate Form 8609 must be issued for each building in a multiple building project.

Form 8609-A, Annual Statement for Low-Income Housing Credit. Use Form 8609-A to report compliance with the low-income housing provisions and calculate the credit. Form 8609-A must be filed by the building owner for each year of the 15-year compliance period.

Recordkeeping. A separate record of the Low-Income Housing Credit from each source needs to be maintained so that any recapture of the credit can be correctly calculated.

New Markets Tax Credit (Form 8874)

The New Markets Tax Credit program provides tax credit incentives to investors for qualified equity investments made in qualified community development entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor equals the qualified equity investment multiplied by 39%. The credit is claimed over seven years (5% in years one through three and 6% in years four through seven). For more information, see Form 8874, *New Markets Credit*.

OBBBA The New Markets Tax Credit has been permanently extended.

Nuclear Power Production Credit (Form 7213)

Credit for the Production of Electricity from Advanced Nuclear Power Facilities (Form 7213, Part I). This credit is for electricity produced from advanced nuclear power facilities that is sold to unrelated persons (IRC §45J). The amount of this credit is not reduced by the amount of grants, tax-exempt bond proceeds, subsidized energy financing, or other credits. To claim the credit, attach a copy of the IRS acceptance letter described in section 6.05 of Notice 2023-24.

Credit transfer election. A qualified public entity may elect to transfer some or all of its credit to an eligible project partner. The election is irrevocable. The eligible project partner claims the credit by filing the election statement with its tax return. For election procedures and necessary statements, see Notice 2023-24.

Zero-Emission Nuclear Power Production Credit (Form 7213, Part II). This credit is for electricity produced from qualified nuclear power facilities and sold in tax years beginning in 2024 through 2032 (IRC §45U). Qualified nuclear power facilities must be owned by the taxpayer, not be an advanced nuclear power facility for the above credit, and be placed in service before August 16, 2022. To claim the credit, attach a copy of the permit or license number from the Nuclear Regulatory Commission.

Elective payment election (EPE). Applicable entities and electing taxpayers, including a partnership or S corporation, may elect to treat the credit as a payment or deemed payment of tax. See *Elective payment election (EPE)*, page 31-3.

Credit transfer election. Eligible taxpayers that do not make the EPE can elect to transfer all or part of the credit amount otherwise allowed as a general business credit to an unrelated third-party buyer in exchange for cash. Eligible taxpayers do not include applicable entities. See *Credit transfer election*, page 31-4.

Prevailing wage requirements. The base credit is multiplied by five if prevailing wage requirements are met for workers. See *Prevailing wage and apprenticeship (PWA) requirements*, page 31-13.

Orphan Drug Credit (Form 8820)

This credit applies to qualified expenses incurred in testing certain drugs, known as orphan drugs for rare diseases and conditions. The credit is 25% of qualified clinical testing expenses. If the Orphan Drug Credit is claimed, the regular allowable deduction for eligible costs is reduced by the amount of the credit. A reduced credit may be elected in lieu of reducing allowable deductions. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Qualified Commercial Clean Vehicle Credit (Form 8936)

For tax years after 2023, businesses and tax-exempt organizations that buy a qualified commercial clean vehicle may qualify for a tax credit.

OBBA Taxpayers cannot claim the qualified commercial clean vehicle credit for any vehicle acquired after September 30, 2025.

Credit amount. Generally, the credit amount for each qualified commercial clean vehicle is equal to the lesser of:

- 15% of the basis of the vehicle (30% for a vehicle not powered by a gasoline or diesel internal combustion engine), or
- The incremental cost of the vehicle.

Incremental cost. The incremental cost of any qualified commercial clean vehicle is the excess of its purchase price over the price of a comparable vehicle powered only by gasoline or diesel internal combustion.

2025 safe harbor. A safe harbor applies for the incremental cost of certain qualified commercial clean vehicles placed in service in calendar year 2025. The IRS will accept the use of \$7,500 as the incremental cost for all street vehicles [other than compact car plug-in electric vehicles (PHEVs)] with a gross vehicle weight rating (GVWR) of less than 14,000 pounds to compute the credit amount for vehicles placed in service during calendar year 2025. For compact car PHEVs and certain vehicles with a GVWR of 14,000 pounds or more, the IRS will accept the incremental cost for the appropriate vehicle class determined by the Department of Energy. (Notice 2025-9)

Maximum credit. The credit is limited to \$7,500 (\$40,000 for a vehicle with a GVWR or 14,000 pounds or more).

Qualifying for the credit. Businesses and tax-exempt organizations qualify for the credit. There is no limit on the number of credits a business can claim. For businesses, the credits are non-refundable. The Commercial Clean Vehicle Credit can be carried over as a general business credit.

Qualified commercial clean vehicle. To qualify, a vehicle must be subject to a depreciation allowance, with an exception for vehicles placed in service by a tax-exempt organization and not subject to a lease.

The vehicle must also:

- Be made by a qualified manufacturer.
- Be for use in the taxpayer's business, not for resale.
- Be for use primarily in the U.S.
- Not have previously been allowed a Clean Vehicle Credit (see *Clean Vehicle Credit*, page 11-18).

In addition, the vehicle must either be:

- Treated as a motor vehicle for purposes of Title II of the Clean Air Act and manufactured primarily for use on public roads (not including a vehicle operating exclusively on a rail or rails), or
- Mobile machinery, including vehicles that are not designed to perform a function of transporting a load over a public highway.

The vehicle or machinery must either be:

- A plug-in electric vehicle that draws significant propulsion from an electric motor with a battery capacity of at least:

- 7 kilowatt hours if the GVWR is under 14,000 pounds.
- 15 kilowatt hours if the GVWR is 14,000 pounds or more, or
- A fuel cell motor vehicle (propelled by power derived from one or more cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel).

Qualified manufacturer. A qualified manufacturer is a manufacturer who has entered into a written agreement with the IRS under which the manufacturer agrees to make periodic written reports to the IRS providing vehicle identification numbers (VINs) and other information about their commercial clean vehicles. For a list of qualified manufacturers, go to www.irs.gov/credits-deductions/manufacturers-for-qualified-commercial-clean-vehicle-credit.

Form 8936, Clean Vehicle Credits. Use Form 8936 and Schedule A (Form 8936), *Clean Vehicle Credit Amount*, to compute and claim the Qualified Commercial Clean Vehicle Credit. Partnerships and S corporations must file Form 8936 to claim the credit. All other taxpayers are not required to complete or file this form if their only source for this credit is a partnership or S corporation. Instead, they can report this credit directly on line 1aa, Part III, Form 3800, *General Business Credit*.

Elective payment election (EPE). Applicable entities may elect to treat the credit as a payment of income tax. See *Elective payment election (EPE)*, page 31-3.

Basis reduction. Reduce the basis of each qualified vehicle by the amount of the credit claimed for that vehicle.

Coordination with other credits. The same vehicle cannot be used to claim the new Clean Vehicle Credit and the Qualified Commercial Clean Vehicle Credit. If a vehicle qualifies for both credits, the taxpayer may choose which credit to claim.

Recapture of the credit. If the vehicle no longer qualifies for the credit, the taxpayer may have to recapture all or a part of the credit.

Renewable Electricity Production Credit (Form 8835)

This credit is allowed for the sale of renewable electricity, produced in the United States or U.S. territories from qualified energy resources at a qualified facility.

Generally, the credit amount is the number of kilowatt-hours produced and sold multiplied by a specific rate. See Form 8835 for the rates applicable to each energy source.

Qualified energy resources. Qualified energy resources are:

- Closed-loop biomass.
- Geothermal energy.
- Qualified hydropower production.
- Marine/hydrokinetic renewables.
- Municipal solid waste.
- Open-loop biomass.
- Solar.
- Wind.

Form 8835, Renewable Electricity Production Credit. Use Form 8835 to claim this credit. Taxpayers, applicable entities, partnerships, and S corporations must file a separate form for each qualified facility. All others are generally not required to complete or file Form 8835 if their only source for this credit is from a partnership, S corporation, estate, trust, or cooperative. Instead, they can report their share of the credit directly on Form 3800, *General Business Credit*.

Elective payment election (EPE). Applicable entities may elect to treat the credit as a payment of income tax. See *Elective payment election (EPE)*, page 31-3.

Credit transfer. Eligible taxpayers, partnerships, and S corporations can elect to transfer all or part of the credit amount otherwise allowed as a general business credit to an unrelated third-party buyer in exchange for cash. See *Credit transfer election*, page 31-4.

Bonus credits. Certain bonus credits may apply. The credit amount is multiplied by five if prevailing wage and apprenticeship requirements are met. See *Prevailing wage and apprenticeship (PWA) requirements*, page 31-13.

An additional 10% domestic content bonus credit applies for projects certifying that certain steel, iron, and manufactured products used in the facility are produced in the United States. See *Domestic content bonus credit*, page 31-13.

An additional 10% energy communities bonus credit applies for a facility located in an energy community. See *Energy communities bonus credit*, page 31-13.

Credit reduction. The credit is reduced if financed by tax-exempt bonds.

Clean Electricity Production Credit (Form 7211)

Facilities that use wind or solar power, or other clean energy to produce electricity for sale to customers are allowed a general business credit based on the amount of electricity produced that meets certain greenhouse emissions standards.

New for 2025 Beginning in 2025, Form 7211, *Clean Energy Production Credit*, will be used to claim this credit.

OBBBA Effective for tax years beginning after July 4, 2025, the credit is not available if the taxpayer is a specified foreign entity or a foreign-influenced entity.

Work Opportunity Credit (Form 5884)

Note: The Work Opportunity Credit is available for qualified wages paid to or incurred for targeted group employees who begin work before 2026.

This credit provides businesses with an incentive to hire individuals from targeted groups that have a particularly high unemployment rate or other special employment needs. The credit is for qualified first- or second-year wages paid to, or incurred for, targeted group employees during the tax year. The business does not have to be located in an Empowerment Zone to qualify for this credit. See *Empowerment Zone Employment Credit (Form 8844)*, page 31-11.

Targeted group employee. An employee is a member of a targeted group if he or she is certified by the state workforce agency (SWA) to be one of the following.

- A long-term family assistance recipient.
- A qualified recipient of Temporary Assistance for Needy Families (TANF).
- A qualified veteran.
- A qualified ex-felon.
- A designated community resident.
- A vocational rehabilitation referral.
- A summer youth employee.
- A SNAP recipient (food stamps).
- A qualified supplemental Social Security income (SSI) recipient.
- Qualified long-term unemployment recipient.

Amount of credit. The credit is 40% of the qualified first-year wages paid or incurred for employees who worked at least 400 hours for the taxpayer. The credit is reduced to 25% for employees who worked at least 120 hours but fewer than 400. The credit is 50% of qualified second-year wages.

Qualified wages. Wages qualifying for the credit have the same meaning as wages subject to the Federal Unemployment Tax Act (FUTA) (determined without regard to the \$7,000 FUTA tax wage base). If the work performed by any employee during more than half of any pay period qualifies under FUTA as agricultural labor, that employee's wages subject to social security and Medicare taxes are qualified wages. Special rules apply to railroad employees.

The amount of qualified wages for any employee is zero if:

- The employee did not work for the employer for at least 120 hours,
- The employee worked for the employer previously,

- The employee is the employer's dependent,
- The employee is related to the employer [IRC § 51(i)(1)],
- 50% or less of the wages the employee received were for working in the employer's trade or business.

Nonqualified wages. Qualified wages do not include:

- Wages paid to or incurred for any employee during any period for which the employer received payment for the employee from a federally funded on-the-job training program,
- Wages paid to or incurred for a summer youth employee for services performed while the employee lived outside an empowerment zone,
- Wages paid to or incurred for a designated community resident for services performed while the employee lived outside an empowerment zone or rural renewal county,
- Wages paid to or incurred for services performed by a summer youth employee before or after any 90-day period between May 1 and September 15, or
- Wages for services of replacement employees during a strike or lockout.

Qualified first-year wages. Qualified first-year wages are qualified wages paid to or incurred for work performed during the one-year period beginning on the date the employee begins work for the taxpayer. The amount of qualified wages that may be taken into account is limited by the type of certified targeted employee as follows.

- \$3,000 for summer youth employees.
- \$6,000 for other targeted group employees.
- \$10,000 for long-term family assistance recipients.

Qualified veterans first-year wage limitations. The amount of qualified first-year wages that may be taken into account for qualified veterans is limited to the following amounts.

- \$6,000 for a qualified veteran certified as being a member of a family receiving SNAP (food stamps) assistance for at least a 3-month period during the 15-month period ending on the hiring date, or unemployed for a period or periods totaling at least four weeks (whether or not consecutive) but less than six months in the one-year period ending on the hiring date.
- \$12,000 for a qualified veteran certified as being entitled to compensation for a service-connected disability and hired within one year after discharge or release from active duty from the U.S. Armed Forces.
- \$14,000 for a qualified veteran certified as being unemployed for a period or periods totaling at least six months (whether or not consecutive) in the one-year period ending on the hiring date.
- \$24,000 for a qualified veteran certified as being entitled to compensation for a service-connected disability, and unemployed for a period or periods totaling at least six months (whether or not consecutive) in one-year period ending on the hiring date.

Qualified second-year wages. Qualified second-year wages are qualified wages paid to, or incurred for, certified long-term family assistance recipients for work performed during the one-year period beginning on the day after the last day of the first-year wage period (limited to \$10,000).

Certification. All employers must obtain certification that the employee is a member of a targeted group before claiming the Work Opportunity Credit. Employers must request and be issued certification for each employee from the state workforce agency (SWA) by the day the individual begins work, or complete Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity Credit*, on or before the day the employer offers the individual a job.

Tax-exempt organizations. Qualified tax-exempt organizations may claim the credit for qualified veterans who begin work before January 1, 2026. Tax-exempt employers may not claim the credit for other targeted group members. To claim the credit, file Form 5884-C, *Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*.

Deduction reduced by credit. Employers must reduce deductions for salaries and wages by the full amount of the credit. This applies even if the credit cannot be fully utilized in the current year and must be carried back or forward. See *Reducing Certain Expenses for Which Credits Are Allowable*, page 31-6.

Other Credits

Cross References

- IRS Pub. 334, *Tax Guide for Small Business*
- IRS Pub. 510, *Excise Taxes*

Related Topics

- Farm Truck and Car Expenses, Tab 5
- Business Deductions, Tab 8
- Tax Credits, Tab 11
- C Corporations, Tab 18

Credit for Federal Tax Paid on Fuels (Form 4136)

Use Form 4136, *Credit for Federal Tax Paid on Fuels*, to claim the following.

- The alternative fuel credit.
- A credit for certain nontaxable uses (or sales) of fuel during the taxpayer's income tax year.
- A credit for blending a diesel-water fuel emulsion.
- A credit for exporting dyed fuels or gasoline blendstocks.

New for 2025 The Sustainable Aviation Fuel (SAF) credit is reported on Form 7218, *Clean Fuel Production Credit*. See *Clean Fuel Production Credit*, next column.

Income inclusion for credit claimed. A taxpayer must include any credit or refund of excise taxes on fuels in gross income if the total cost of the fuel (including the excise taxes) is claimed as an expense deduction that reduced income tax liability.

Claiming the credit. Instead of waiting to claim an annual credit on Form 4136, a taxpayer may be able to file:

- Form 8849, *Claim for Refund of Excise Taxes*, to claim a periodic refund, or
- Form 720, *Quarterly Federal Excise Tax Return*, to claim a credit against excise tax liability.

Nontaxable uses of fuel. The following table lists the nontaxable uses of fuels.

No.	Type of Use
1	On a farm for farming purposes.
2	Off-highway business use (for business use other than in a highway vehicle registered or required to be registered for highway use).
3	Export.
4	In a boat engaged in commercial fishing.
5	In certain intercity and local buses.
6	In a qualified local bus.
7	In a bus transporting students and employees of schools (school buses).

continued in next column

No.	Type of Use
8	For diesel fuel and kerosene (other than kerosene used in aviation) used other than as a fuel in the propulsion engine of a train or diesel-powered highway vehicle (but not off-highway business use).
9	In foreign trade.
10	Certain helicopter and fixed-wing aircraft uses.
11	Exclusive use by a qualified blood collector organization.
12	In a highway vehicle owned by the United States that is not used on a highway.
13	Exclusive use by a nonprofit educational organization.
14	Exclusive use by a state, political subdivision of a state, or the District of Columbia.
15	In an aircraft or vehicle owned by an aircraft museum.
16	In military aircraft.

Amount of credit. The credit is the rate for the nontaxable use of the fuel multiplied by the number of gallons. The rate varies by type of fuel and type of use.

Example: Caroline owns a landscaping business. She uses power lawn mowers and chain saws in her business. The gasoline used in the power lawn mowers and chain saws qualifies as fuel used in an off-highway business use. Caroline needs to keep a log book recording the date and cost of fuel and also the gallons used. The gasoline used in Caroline's personal lawn mower at home does not qualify.

Clean Fuel Production Credit (Form 7218)

New for 2025 For tax years beginning after December 31, 2024, this credit is for the domestic production of clean transportation fuel.

To qualify for the credit, the clean fuel must be transportation fuel produced in the United States (including U.S. possessions) by the taxpayer or a qualified facility and sold by the taxpayer to an unrelated person for use in the production of a fuel mixture, use in a trade or business, or to sell at retail and place in the buyer's fuel tank.

The taxpayer must be registered as a producer of clean fuel at the time of production to claim the credit. (Notice 2024-49)

OBBA Effective for tax years beginning after July 4, 2025, no credit is allowed for a specified foreign entity.

Credit for Prior Year Minimum Tax—Corporations (Form 8827)

Corporations that have an AMT liability in a prior year may be eligible for a credit in the current year.

Form 8827, Credit for Prior Year Minimum Tax—Corporations. Corporations use Form 8827 to compute the minimum tax credit, if any, for AMT incurred in prior years and to compute any minimum tax credit carryforward.

If a refundable current year minimum tax credit is determined on line 11, Form 8827, this amount is entered on line 5d, Schedule J, Form 1120, *U.S. Corporation Income Tax Return*. If a minimum tax credit carryforward is calculated on line 12, Form 8827, keep a record for use in following years.

Corporate Alternate Minimum Tax (CAMT). For more information on the CAMT, see *Corporate Alternate Minimum Tax (CAMT)*, Tab 18.