



Commissioner, Internal Revenue Service  
1111 Constitution Avenue NW  
Washington, DC 20224

**Re: Oversight and Transparency Measures for the 45Q Tax Credit**

Dear Commissioner Werfel:

We write to you on behalf of the Green Scissors Coalition, a diverse alliance of environmental, taxpayer, and free-market groups dedicated to eliminating wasteful and environmentally harmful federal spending. We are deeply concerned about the ongoing issues surrounding the 45Q tax credit for carbon capture and sequestration (CCS) and urge the IRS to implement stringent oversight and transparency measures to protect taxpayer dollars and ensure the credit produces genuine climate benefits.

The 45Q tax credit, designed to incentivize the capture and storage of carbon dioxide, has a well-documented history of fraud, abuse, and insufficient reporting.<sup>1</sup> From 2010 to 2019, ten companies claimed over \$1 billion in 45Q credits, accounting for 99% of all credits claimed.<sup>2</sup> More than \$890 million of these credits did not comply with the Environmental Protection Agency's (EPA) reporting requirements.<sup>3</sup> This lack of compliance not only undermines the integrity of the program but also results in substantial waste of taxpayer dollars.

Given the recent expansion of the 45Q tax credit under the Inflation Reduction Act, which could cost taxpayers up to \$30.3 billion over the next decade, it is imperative that the IRS takes immediate action to prevent any potential misuse of the tax credit.<sup>4</sup> We recommend the following measures to enhance oversight and accountability:

1. **Comprehensive Audits and Public Reporting:** Conduct regular audits of the data submitted by companies and make a summary of this data publicly available in a timely manner. Specifically, the IRS should release information on the total number of claimants and total credit amount claimed by year and broken down by end uses if possible. This disclosure should safeguard confidential business information while enabling stakeholders to evaluate the credibility of purported carbon sequestration activities, increasing transparency and maintaining public trust in the 45Q program.

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<sup>1</sup> Taxpayers for Common Sense, "The Expansion of the 45Q Carbon Capture Tax Credit," accessed June 25, 2024, <https://www.taxpayer.net/energy-natural-resources/the-expansion-of-the-45q-carbon-capture-tax-credit/>.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Congressional Research Service, "The Section 45Q Tax Credit for Carbon Sequestration," August 25, 2023, <https://sgp.fas.org/crs/misc/IF11455.pdf>.

2. **Record Retention Requirements and Clawback Period:** Mandate that companies retain all relevant records for 12 years—the entirety of 45Q claim period, during which the IRS is authorized to recapture 45Q credit benefits if stored or injected carbon leaks. The current clawback period of three years fails to adequately address long-term storage challenges. Increasing this period will hold facilities accountable for the secure storage of carbon and allow for the recovery of credits if it is later determined that the carbon was not stored as claimed.
3. **Consistent and Credible Verification:** The IRS should consult third parties and relevant agencies to identify the most appropriate technologies, standards, and procedures to verify and report carbon sequestration. The IRS should establish guidelines and require verification of all reported data, conducted either by third parties or relevant governmental organizations like the National Energy Technology Laboratory (NETL).

Without these oversight measures, the expanded 45Q tax credit risks perpetuating the same issues of fraud and abuse that have plagued the program in the past. It is essential that taxpayer money is spent wisely and efficiently, and that the 45Q tax credit delivers real climate benefits rather than serving as continued subsidization for polluting industries.

We appreciate your attention to this matter and urge you to implement these recommendations. Doing so would protect taxpayer dollars and improve the effectiveness of our nation's climate policies.

Thank you for your consideration.

Sincerely,

Green Scissors Coalition

