



IRC § 45Z Clean Fuel Production Credit

Renewable Natural Gas as an Eligible 45Z Fuel

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45Z is a lucrative tax credit available for the production and sale of clean fuels, including low-GHG natural gas

The credit is available for registered clean fuel production beginning 1/1/2025.

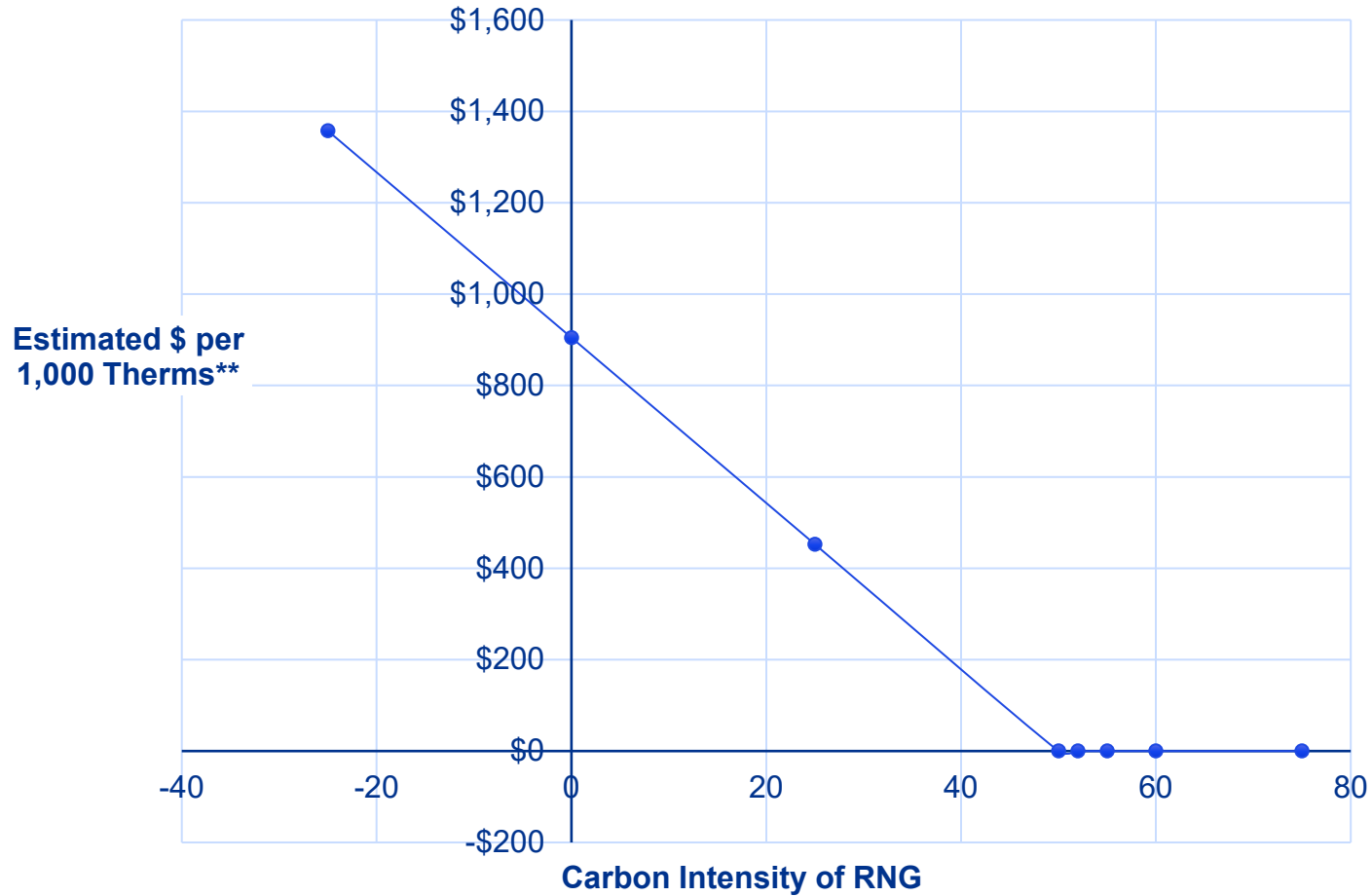
It is computed through a formula which includes values:

1. Amount of eligible RNG produced and sold (gasoline-gallon equivalents)
2. Whether or not prevailing wage & apprenticeship (PWA) requirements are met
3. Carbon Intensity of Fuel

This is an annual production credit that, based on current tax law, can be claimed for 2025, 2026, and 2027.

45Z credits are transferable for cash, so even companies in tax losses can benefit.

RNG with lower carbon intensity will result in a larger 45Z tax credit*



*Chart assumes PWA requirements are met

**As-calculated based on lower heating value of fuel

Low-GHG natural gas is an eligible fuel for the 45Z tax credit

The value of the 45Z credit is determined by the carbon intensity of the RNG pathway, which leads to the spectrum of opportunity as shown below.

Smallest 45Z Opportunity	Moderate 45Z Opportunity	Largest 45Z Opportunity
RNG from Wastewater Sludge via Anaerobic Digestion	RNG from Landfill Gas	RNG from Animal Manures via Anaerobic Digestion

Ultimately, the carbon intensity must be modeled on a case-by-case basis to determine the exact benefit.

There are 4 important pillars to consider when qualifying for and computing the 45Z tax credit.

1. Fuel Standard

For RNG to be an eligible fuel, it must meet the specifications of ASTM International D8080-21.

2. Registration

There is no 45Z credit allowed for transportation fuel unless the taxpayer is registered in the United States for clean fuel production.

3. Carbon Intensity Modeling & Credit Calculation

There are 4 elements of the calculation, one of which being the carbon intensity of the fuel, which must be modeled.

4. Prevailing Wage & Apprenticeship (PWA)

Meeting PWA requirements results in a larger applicable amount for computation of the credit.

Pillar 1: Fuel Standard

- For low-GHG natural gas, which includes renewable natural gas, to be an eligible fuel, it must meet the specifications of [ASTM International D8080-21, Standard Specification for Compressed Natural Gas \(CNG\) and Liquefied Natural Gas \(LNG\) Used as a Motor Vehicle Fuel](#).
- The standard includes specifications on substances/properties, approved test methods, and requirements for each fuel grade.
- There is overlap with requirements for pipeline quality natural gas, but ASTM D8080 imposes some additional requirements.
- Taxpayers should seek assistance with evaluating their fuel against this standard to ensure the requirements are met.

Pillar 2: Registration

- Only **registered production in the United States** is considered for the credit
- Taxpayer must be registered as a producer of clean fuel
- The IRS must issue a signed registration letter for the production to be considered registered
- Application for registration is made on *Form 637 Application for Registration (Certain Excise Activities)*

Pillar 3: Carbon Intensity Modeling

- The value of the credit is determined based on the carbon intensity of the fuel, with lower carbon intensity fuels receiving a more lucrative credit
- Carbon intensity modeling is required to be performed via the recently released [45Z GREET model](#)
- 3rd party certification of carbon intensity modeling can be received for non-SAF fuels such as RNG

Pillar 4: Prevailing Wage & Apprenticeship (PWA)

- Meeting PWA requirements results in a [5x multiplier to the credit value](#)
- The specific PWA requirements that are applicable depends on when the fuel producing facility was constructed and placed in service. In general, ongoing [alteration and repair work for such facilities](#) will need to abide by prevailing wage requirements for such work.
- To ensure compliance, it is essential to develop a [proactive process](#) to incorporate these requirements within contracting and to track and collect necessary data.

Next Steps for Producers of RNG

1. Evaluate your potential annual tax credit
2. Develop a proactive process to address the 4 Pillars



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