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ENHANCED OIL RECOVERY AND CARBON CAPTURE: SECTION 45Q IN THE AGE OF TRUMP

The One Big Beautiful Bill Act ("OBBBA"),¹ signed by President Trump into law on July 4, 2025, has enacted sweeping changes to the tax credit regime for carbon capture and clean energy investment. Among the most impactful changes ushered in by the OBBBA is an increase in the value of the tax credits available in connection with enhanced oil recovery ("EOR"), which fundamentally alters the economics of many potential carbon capture projects.

KEY ISSUES

- 1 Parity achieved for EOR and Non-EOR Sequestration
- 2 Eligibility is limited to new equipment placed in service after 4 July 2025
- 3 Amendments will lead to strategic opportunities for industry stakeholders

BACKGROUND

Section 45Q of the Internal Revenue Code (the "Code")² provides a tax credit for the capture and sequestration of carbon oxides from industrial sources ("Section 45Q Tax Credit"). The Section 45Q Tax Credit applies to

¹ OBBBA, H.R. 1. 119th Cong. (2025).

² 26 U.S. Code.

carbon dioxide disposed of in secure geological storage, including when utilized as a tertiary injectant for EOR or when disposed of in secure geological storage without such utilization ("Sequestration"). Section 45Q Tax Credits were initially provided for under the Energy Improvement and Extension Act of 2008 ("EIEA"), and were amended under the Bipartisan Budget Act of 2018 ("BBA") and the Inflation Reduction Act of 2022 ("IRA").

Historically, the value of the Section 45Q Tax Credit available for Sequestered CO₂ has differed between credits claimed for EOR and credits claimed for Sequestration without EOR. Specifically, until the passing of the OBBBA, the baseline value of the Section 45Q Tax Credit for non-EOR Sequestration was \$17 and the baseline value of the Section 45Q Tax Credit for EOR was \$12. Each tax credit was eligible for a 5x multiplier where the construction, alteration, and repair of the applicable qualified facility and carbon capture equipment complied with certain prevailing wage and apprenticeship ("PWA") requirements, bringing the total pre-inflation credit value to \$85 for non-EOR Sequestration but to just \$60 for Sequestration with EOR.³

NEW DEVELOPMENTS

The most significant change to Section 45Q of the Code under the OBBBA⁴ for carbon capture equipment placed in service after July 4, 2025 is that qualified carbon oxides utilized in EOR will be eligible for a base credit under Section 45Q of \$17.⁵ For a qualified facility or carbon capture equipment satisfying the PWA requirements, qualified carbon oxides utilized in EOR will be eligible for the full tax credit value of \$85, establishing parity with non-EOR Sequestration.

Importantly, the increased Section 45Q Tax Credit only applies to equipment placed in service after July 4, 2025. For facilities placed in service before the OBBBA, the full value of the Section 45Q Tax Credits will not be available for carbon oxides utilized in EOR.

IMPLICATIONS FOR EOR

For the carbon capture sector, the increase of the Section 45Q Tax Credit for EOR highlights that the Section 45Q Tax Credit, and in particular EOR, will remain a focus of the Trump administration's energy strategy. By bringing the value of the Section 45Q Tax Credit for carbon oxides utilized in EOR in line with the value for non-EOR Sequestration, the OBBBA is likely to lead to an increased focus on the use of industrially sourced CO₂ in EOR and may reshape the carbon capture landscape.

Developers and organizations with existing pipelines and EOR infrastructure, and emitters located near such infrastructure, may now have new opportunities to realize significant value from the increased Section 45Q Tax Credit. As discussed in our earlier briefing ([One Big Beautiful Bill Act: Updates to Section 45Q Tax Credits for CCS and Publicly Traded Partnerships for Clean Energy](#)) the market for EOR CO₂ in the United States has traditionally been filled largely by naturally occurring CO₂. With new projects able to obtain \$85 per MT of CO₂ utilized in EOR, there is untapped value to be generated from displacing that naturally occurring CO₂ with emissions from industrial sources. That value may be shared between emitters that now have easier access to high-value Sequestration

³ Inflation Reduction Act of 2022, Pub. L. No. 117-169, § 13104, 136 Stat. 1818, 1924–1929 (2022).

⁴ A more detailed summary of the changes to Section 45Q can be found in our earlier briefing: [One Big Beautiful Bill Act: Updates to Section 45Q Tax Credits for CCS and Publicly Traded Partnerships for Clean Energy](#).

⁵ One Big Beautiful Bill Act, Pub. L. No. 119-21, § 70522 (2025).

infrastructure and EOR companies that now find themselves well positioned to provide that service.

One key advantage that EOR projects offer in the generation of Section 45Q Tax Credits is the potential for an accelerated project timeline. EOR utilization does not require captured CO₂ to be Sequestered in Class VI underground injection control ("UIC") wells, which have historically required a lengthy permitting process that can take many years to finalize. EOR projects enjoy both robust existing infrastructure along with a well-trodden permitting path to pursue expansions.

Key takeaway: The amendments to the Section 45Q Tax Credit in the OBBBA include an increase in the value of the Section 45Q Tax Credit available in connection with EOR from \$60 to \$85 per MT, resulting in parity between EOR and non-EOR Sequestration. These amendments create a more favorable tax credit position for captured CO₂ utilized in EOR, and many companies — both emitters and EOR Sequestration providers — may now have opportunities to open significant new revenue streams for their existing businesses that were uneconomic pre-OBBBA.

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