

## **REGIONAL CLEAN HYDROGEN HUBS TAX CREDIT PROGRAM**

Act 108 of 2022 amended Article XVII-L of the Tax Reform Code of 1971 by adding the Pennsylvania Economic Development for a Growing Economy (PA Edge) Tax Credits to the Commonwealth's collection of tax credit programs. Qualified Taxpayers purchasing clean hydrogen and natural gas for use in manufacturing at a facility in the Commonwealth will be entitled to a Regional Clean Hydrogen Hubs ("RCHH") Tax Credit. The program is designed to accelerate the use of clean hydrogen to help reach state and federal emissions reduction goals by offering a tax incentive to manufacturers that are part of a Regional Clean Hydrogen Hub designated by the United States Department of Energy at a facility in the Commonwealth.

A tax credit approved by the Pennsylvania Department of Revenue (the "Department"), will be a non-refundable credit that must first be applied against the Qualified Taxpayer's own tax liability. The RCHH Tax Credit will be equal to eighty-one cents per kilogram of clean hydrogen purchased from a Regional Clean Hydrogen Hub within the Commonwealth and/or forty-seven cents per unit of natural gas that is purchased and used in manufacturing at the project facility by a Qualified Taxpayer.

The credit is limited to 20% of any of the Qualified Taxpayer's qualified tax liabilities incurred in the taxable year for which the credit was approved. A qualified tax liability includes corporate net income tax, bank and trust companies shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, mutual thrift institutions tax and personal income tax liabilities for owners of pass-through entities receiving the credit. A recipient of a credit "passed-through" from a pass-through entity cannot be passed-through again, i.e., there is no "double pass-through" of the credit.

If the Qualified Taxpayer receiving the RCHH Tax Credit holds the credit through the end of the calendar year in which the credit was granted, the taxpayer may apply for approval to sell or assign the credit to a buyer or assignee. A buyer or assignee may offset up to 50% of its own qualified tax liability with the purchased or assigned credit. The RCHH Tax Credits must be used by the buyer or assignee in the calendar year the purchase or assignment is made. Credits may only be purchased or assigned once.

The RCHH Tax Credit sale or assignment provision require that the Qualified Taxpayer exclusively offer the tax credit to downstream companies for a period of 30 days following approval of the credit, then exclusively to upstream companies for 30 days following the expiration of the downstream company offer period. This means that the Qualified Taxpayer cannot sell or assign the credit to a company that is neither a downstream nor upstream company within 60 days of the credit's approval.

In order to meet the definition of a “qualified taxpayer,” an applicant must:

- Own and operate a project facility located within a Regional Clean Hydrogen Hub designated by the United States Department of Energy in the Commonwealth placed in service on or after November 3, 2022.
- Enter into a commitment letter with the Department of Community and Economic Development to purchase clean hydrogen from a Regional Clean Hydrogen Hub within the Commonwealth for use in manufacturing at the project facility.
- Make a capital investment of at least \$500,000,000 in order to construct a facility within the commonwealth.
- Create at least 1,200 New and Permanent jobs during the construction of the facility and ongoing operation of the project facility. All New jobs must pay the prevailing minimum wage and benefit rates for each craft or classification as determined by the Department of Labor and Industry under the Prevailing Wage Act.
- Make a good faith effort to recruit and employ workers from the local labor market for employment during the construction of the project facility.
- Abide by the Steel Products Procurement Act March 3, 1978 (P.L.6, No.3) for- construction work to place a project facility into service

Implementing the RCHH Tax Credit program will accelerate the use of clean hydrogen to help reach state and federal emissions reduction goals resulting in economic growth and job creation for the Commonwealth.

Questions regarding the administration of the RCHH program should be directed to the Office of Economic Development within the Pennsylvania Department of Revenue. Please contact Matt Forti at 717-772-3896 or [mforti@pa.gov](mailto:mforti@pa.gov).

## **REGIONAL CLEAN HYDROGEN HUBS TAX CREDIT PROGRAM: QUESTIONS AND ANSWERS**

### **What is the Regional Clean Hydrogen Hubs (RCHH) Tax Credit Program?**

The RCHH Tax Credit will be equal to eighty-one cents per kilogram of clean hydrogen purchased from a Regional Clean Hydrogen Hub within the Commonwealth and/or forty-seven cents per unit of natural gas that is purchased and used in manufacturing at the project facility by a qualified taxpayer and will be limited to 20% of the taxpayer's CNIT or pass-through tax liability. The RCHH Tax Credit issued and approved by the Pennsylvania Department of Revenue (DOR) will be a non-refundable credit against Pennsylvania corporate net income tax, bank and trust companies shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, mutual thrift institutions tax and personal income tax liabilities for partners, members, or shareholders for credits earned by pass-through entities such as partnerships, LLCs and S-Corporations.

### **Can the RCHH Tax Credit be assigned?**

Yes. Businesses having approved RCHH Tax Credits may apply for approval to sell or assign their eligible RCHH Tax Credits to another taxpayer that can then use the purchased credits to offset up to 50% of its own Pennsylvania tax liability with the purchased credit.

RCHH Tax Credits must first be exclusively offered to upstream and downstream companies for a total of 60 days following the approval of the credits. Purchasers of RCHH Tax Credits, approved by DOR, would be a non-refundable credit. The RCHH Tax Credits must be used by the buyer within the tax year approval of the assignment. Credits may only be assigned once.

### **To which Pennsylvania taxes may purchased RCHH Tax Credits be applied, after an application is approved by DOR?**

Purchasers of RCHH Tax Credits approved by DOR would be a non-refundable credit against Pennsylvania corporate net income tax, personal income tax, bank and trust companies shares tax, title insurance companies shares tax, insurance premiums tax, gross receipts tax, and mutual thrift institutions tax.

### **What is Pennsylvania's current CNIT rate?**

January 1, 2023 through December 31, 2023: 8.99 percent  
January 1, 2024 through December 31, 2024: 8.49 percent  
January 1, 2025 through December 31, 2025: 7.99 percent  
January 1, 2026 through December 31, 2026: 7.49 percent  
January 1, 2027 through December 31, 2027: 6.99 percent  
January 1, 2028 through December 31, 2028: 6.49 percent  
January 1, 2029 through December 31, 2029: 5.99 percent  
January 1, 2030 through December 31, 2030: 5.49 percent  
January 1, 2031 and each taxable year thereafter: 4.99 percent

### **What is Pennsylvania's current PIT rate?**

The PIT rate is currently at 3.07%.

**What is the Bank and Trust Companies Shares Tax rate?**

The rate is currently at 0.95% for all bank and trust companies doing business in Pennsylvania.

**What is the Title Insurance Companies Shares Tax rate?**

The rate is currently at 1.25% for Pennsylvania title insurance companies.

**What is the Insurance Premiums Tax rate?**

The insurance premiums tax on life insurance entered with unauthorized insurance companies is 2% of gross premiums.

**What is the Mutual Thrift Institutions Tax rate?**

The rate is currently at 11.5% for savings institutions, savings banks, savings and loan associations, and building and loan associations doing business in Pennsylvania.

**Will a firm be able to carry over any unused RCHH Tax Credits?**

No.

**Can RCHH Tax Credits be passed through?**

Yes. Credits earned by pass-through entities such as partnerships, limited liability companies and S-Corporations can be passed through one time to partners, members, or shareholders on a pro-rata basis pursuant to the equity ownership interest in the pass-through entity at the end of the tax year for which the credit application is submitted.

**Is there any additional information on the use of the RCHH Tax Credits?**

Yes, the credits:

- Must be applied in year passed through.
- No carry forward, carry back, or refund of unused credits by partners, members or shareholders.
- Utilized cannot exceed 20 percent of the total PIT liability by partners, members or shareholders.
- Must be “held” for one year before the assignment or sale.

**Is there any additional information on the use of purchased or assigned RCHH Tax Credits?**

Yes:

- Prior to sale or assignment, the credits must first be offered exclusively to downstream companies for a period of 30 days after approval.
- Prior to sale or assignment, the credits must be offered to an upstream or downstream companies for a period of 30 days after the initial downstream exclusive provision expires.
- The credits must be claimed by the recipient in calendar year the credits are purchased or assigned.
- The credits may not be carried forward, carried back, or refunded.
- The amount of the credit used cannot exceed 50 percent of the recipient’s qualified tax liability.
- The seller must get a tax clearance before the sale is allowed.

**What is the definition of natural gas for RCHH purposes?**

"Natural gas." A fossil fuel consisting of a mixture of hydrocarbon gases, primarily methane, and possibly including ethane, propane, butane, pentane, carbon dioxide, oxygen, nitrogen and hydrogen sulfide and other gas species. The term includes natural gas from oil fields known as associated gas or casing head gas, natural gas fields known as nonassociated gas, coal beds, shale beds and other formations. The term does not include coal bed methane.

**What is the definition of clean hydrogen for RCHH purposes?**

Clean hydrogen." Hydrogen used in a project which has been determined by the United States Department of Energy to demonstrably aid achievement of the clean hydrogen production standard under section 822 of the Energy Policy Act of 2005 (Public Law 109-58, 11 Stat. 594) by mitigating emissions across the supply chain through aggressive carbon capture, by measures to mitigate fugitive methane emissions or by the use of clean electricity or other technologies or practices approved by the United States Department of Energy.

**What is the definition of unit for RCHH purposes?**

Unit is defined as one thousand cubic feet of natural gas at a temperature of 60 degrees Fahrenheit and an absolute pressure of 14.73 pounds per square inch, in accordance with American Gas Association standards and according to Boyle's law for the measurement of gas under varying pressures with deviations stated within the enabling act.

**What are the recapture provisions?**

The department has the authority to audit any person claiming this tax credit to ascertain the validity of the amount claimed. The department has the authority to issue an assessment for any improperly issued tax credit.

**Is the RCHH Tax Credit capped?**

No more than \$50,000,000 in tax credits may be awarded annually over the life of the Program beginning January 1, 2024 and ending December 31, 2043.

**Are there any Limitations under the Cap?**

Awards may not exceed \$50,000,000 per program year for a qualified taxpayer which first meets the eligibility provisions to receive a credit under the RCHH tax credit program. Unallocated credits may be awarded, to the next qualified taxpayer, that meets the eligibility provisions to receive a credit under the RCHH tax credit program.

The total aggregate amount of tax credits awarded to a qualified taxpayer may not exceed 50% of the capital investment made to construct a project facility and place the project facility into service in the Commonwealth.

**Who will administer the RCHH Tax Credits?**

The DOR will administer the RCHH Tax Credit Program. The RCHH Tax Credits are issued and approved by DOR. DOR shall designate forms or schedules and promulgate regulations necessary for the implementation and administration of the RCHH Tax Credit program.

**What are the dates for application and approval of RCHH Tax Credits by DOR?**

A qualified taxpayer may apply for a RCHH Tax Credit by submitting an application by March 1<sup>st</sup> to DOR. DOR shall notify the taxpayer the amount of the approved taxpayer's RCHH Tax Credit by May 1<sup>st</sup> of the calendar year. The taxpayer or principals may immediately utilize the credit upon approval.

**Will there be an annual license fee?**

No.

**Does the legislation have a sunset date?**

Yes. December 31, 2043

**What are the dates and the process for application and approval of the sale of RCHH Tax Credits?**

The seller business must hold RCHH Tax Credits issued by DOR through the calendar year in which the credits were granted. Applications for the transfer of all or a portion of the Tax Credit will be reviewed by DOR. DOR may take up to 60 days to review the application and confirm compliance with all conditions before posting the transfer and transferee's respective accounts.

**Is there any additional information for the transfer process for RCHH Tax Credits?**

Yes, the seller/assignor must be in tax compliance in order to transfer the credit.

**Does the legislation have an annual reporting requirement for RCHH Tax Credit effectiveness and survivability?**

Yes. The report shall include the names of all qualified taxpayers utilizing the tax credit and the amount of tax credit approved, utilized, sold or assigned by qualified taxpayers. DOR shall issue a report to the General Assembly no later than the year after which tax credits are first awarded and each October 1 thereafter.

**Does the legislation have a final reporting requirement?**

Yes. After the year in which tax credits are first awarded, DOR shall produce a ten year reconciliation report to the Governor and General Assembly concerning a program evaluation on the effectiveness of RCHH Tax Credit program and any recommended changes or continuation of the credit.

**What are the desired effects of the RCHH Tax Credit program?**

1. The RCHH Tax Credit is an incentive for business manufacturers purchasing natural gas and clean hydrogen to locate this type of business manufacturing facility into the Commonwealth.
2. Firms can purchase RCHH Tax Credits from a business manufacturer, due to the assignment provisions, so as to reduce their Pennsylvania tax liability.
3. Certain manufacturing firms in Pennsylvania will be able to reduce Pennsylvania Corporate Net Income Tax, and Personal Income Tax (for pass-through entities) liability for greater after-tax profitability.
4. Because of the assignment provisions, purchasers of RCHH Tax Credits will be able to reduce Pennsylvania corporate net income tax, personal income tax, bank and trust companies shares

tax, title insurance companies shares tax, gross premiums tax, gross receipts tax, and mutual thrift institutions tax.

5. RCHH Tax Credits will be a relocation incentive tool, where Pennsylvania will become a more attractive place relative to other states for manufacturing businesses.
6. Increased energy-enabled economic activity is expected, which will generate higher economic growth for the Commonwealth. Enhanced job growth is expected.
7. In addition to providing additional Pennsylvania jobs, the increase in Pennsylvania processing energy investment makes Pennsylvania workers more productive and increases their incomes.
8. The RCHH Tax Credit program through enhanced investment and job growth will result in indirect additional state revenues.
9. Implementing the RCHH Tax Credit program will accelerate the use of clean hydrogen to help reach state and federal emissions reduction goals.