Section 45Z Clean Fuel Production Credit: National Alliance of Forest Owners/Arkansas Forestry Association Comments on Internal Revenue Service Proposed Regulations



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The National Alliance of Forest Owners ("NAFO") submitted April 6th comments on the United States Department of Treasury and Internal Revenue Service (collectively, "IRS") rules published in February regarding the Clean Fuel Production Tax Credit ("PTC") under Section 45Z of the Internal Revenue Code.

A number of state forestry organizations joined in submission of the comments, including the Arkansas Forestry Association.

The proposed regulations can be relied upon until they are finalized if the taxpayer is guided by them in their entirety and in a consistent manner.

The proposed rules address how to determine clean fuel production credits including:

- Credit eligibility rules.
- Emission rates.
- Certification requirements.
- Registration requirements.
- Elective payment and credit transferability.

The Section 45Z PTC was enacted as part of the Inflation Reduction Act of 2022. The PTC replaced the previous renewable fuel incentives. The objective is to incentivize domestic production of lower carbon alternatives to petroleum-based fuels.

The One Big Beautiful Bill enacted in 2025 extended and modified the credit. It is based on the quantity of clean fuel produced and sold by a domestic producer. The domestic producer must chemically process feedstocks into finished fuel during the time period of January 1, 2025, to December 31, 2027.

NAFO describes itself as representing:

… America's working forests and the broader forest products supply chain— industries that support good-paying rural jobs, steward our natural resources through sustainable forest management, and play an important role in advancing our country's energy and economic goals.

NAFO initially states the following:

- Section 45Z should be implemented in a manner grounded in common sense, sound science, and a practical understanding of how working forests operate on the ground.
- Presents an opportunity to cut red tape, unlock innovation, and deliver real benefits to American communities.
- If properly implemented, §45Z can help create new markets for low-value woody material, support domestic energy production, strengthen rural economies, and encourage active forest management.
- Final rule should reflect on-the-ground realities of working forests and provide a practical path for fuels derived from woody biomass to be fairly evaluated under the credit.

The proposed rule is characterized as making clear that 45Z turns on credit eligibility, emissions rates, and certification requirements; those implementation choices will determine whether woody biomass is meaningfully included or functionally left out.

A summary of points raised in the NAFO comments include:

- Woody Biomass is a Scalable, Domestic Feedstock for Low-Carbon Fuels.
- Lifecycle Modeling Must Accurately Reflect Working Forest Systems.
- Modeling Frameworks Must Enable Forest Biomass Pathways.
- Lifecycle Analysis Must Reflect the Forest Carbon Cycle.
- Modeling Should Reflect Appropriate Time Horizons and System Boundaries.
- Lifecycle Analysis Should Account for Avoided Emissions.
- Forest Residues and Related Materials Should Be Clearly Recognized as Eligible Feedstocks.
- Treasury Should Provide Clear and Workable Pathways for Credit Eligibility.
- Section 45Z Should Align with Existing Federal Bioenergy Policy.

A copy of the NAFO comments can be found here.