

PHASEOUT OF THE HYDROGEN SUBSIDY

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TOPLINE: The One Big Beautiful Bill (OB3) accelerates the phaseout of a subsidy for the production of green hydrogen.

BACKGROUND: Hydrogen energy is used mainly for refining petroleum and producing fertilizer. Hydrogen is commonly produced through a process in which methane reacts with hot steam to produce hydrogen and carbon monoxide, which reacts again with steam to produce more hydrogen and carbon dioxide. Another process is the use of electricity to split water atoms to create hydrogen. The Inflation Reduction Act (IRA) created the Clean Hydrogen Production Credit, which can be claimed for up to 10 years from the time a facility is placed in service, to incentivize hydrogen produced with low lifecycle greenhouse gas emissions.

What OB3 Does:

- Accelerates the phaseout of the hydrogen subsidy, so that the subsidy only applies to facilities for which construction begins before January 1, 2028 (instead of January 1, 2033).

Why It Matters?

- The subsidy distorts business decisions on how to produce hydrogen, pushing companies to create energy through politically favored methods instead of more cost-competitive ways.
 - The production of green hydrogen is three times more expensive than hydrogen from fossil fuel.
- The longer Congress leaves open the window to the subsidies, the more likely they are to be extended indefinitely. As Milton Friedman once said, "Nothing is so permanent as a temporary government program."
- This phaseout reduces the deficit by about \$6 billion over a 10-year period (2025-2034), according to estimates from JCT.

Where Can I Find the Changes? OB3 Section 70511; 26 U.S.C. § 45V.

BOTTOMLINE: The government shouldn't meddle in how hydrogen is produced. Whether hydrogen is produced through steam-methane reforming, electrolysis, or other methods, those decisions are best left to the innovators in the private sector who understand their industry. Congress took an important step in accelerating the expiration of the subsidies. Ideally, lawmakers should finish the job by immediately terminating the subsidies.

