

119TH CONGRESS
1ST SESSION

S. 3531

To amend the Internal Revenue Code of 1986 to establish a tax credit for qualified combined heat and power system property, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 17, 2025

Mrs. BLACKBURN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to establish a tax credit for qualified combined heat and power system property, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TAX CREDIT FOR QUALIFIED COMBINED HEAT**
4 **AND POWER SYSTEM PROPERTY.**

5 (a) ESTABLISHMENT OF CREDIT.—

6 (1) IN GENERAL.—Subpart E of part IV of
7 subchapter A of chapter 1 of the Internal Revenue
8 Code of 1986 is amended by inserting after section
9 48E the following new section:

1 **“SEC. 48F. CREDIT FOR QUALIFIED COMBINED HEAT AND**
 2 **POWER SYSTEM PROPERTY.**

3 “(a) CREDIT FOR QUALIFIED COMBINED HEAT AND
 4 POWER SYSTEM PROPERTY.—

5 “(1) IN GENERAL.—For purposes of section 46,
 6 except as provided in subsection (c)(1)(B), the credit
 7 for qualified combined heat and power system prop-
 8 erty for any taxable year is an amount equal to 10
 9 percent of the basis of each qualified combined heat
 10 and power system property placed in service during
 11 such taxable year.

12 “(2) COORDINATION WITH REHABILITATION
 13 CREDIT.—The percentage specified in paragraph (1)
 14 shall not apply to that portion of the basis of any
 15 property which is attributable to qualified rehabilita-
 16 tion expenditures (as defined in section 47(c)(2)).

17 “(3) QUALIFIED COMBINED HEAT AND POWER
 18 SYSTEM PROPERTY.—For purposes of this section,
 19 the term ‘qualified combined heat and power system
 20 property’ means any property—

21 “(A) which is combined heat and power
 22 system property,

23 “(B)(i) the construction, reconstruction, or
 24 erection of which is completed by the taxpayer,
 25 or

1 “(ii) which is acquired by the taxpayer if
 2 the original use of such property commences
 3 with the taxpayer,

4 “(C) with respect to which depreciation (or
 5 amortization in lieu of depreciation) is allow-
 6 able, and

7 “(D) which meets the performance and
 8 quality standards (if any) which—

9 “(i) have been prescribed by the Sec-
 10 retary by regulations (after consultation
 11 with the Secretary of Energy), and

12 “(ii) are in effect at the time of the
 13 acquisition of the property.

14 Such term shall not include any property which
 15 is part of a facility the production from which
 16 is allowed as a credit under section 45 for the
 17 taxable year or any prior taxable year.

18 “(4) SPECIAL RULE FOR PROPERTY FINANCED
 19 BY TAX-EXEMPT BONDS.—Rules similar to the rule
 20 under section 45(b)(3) shall apply for purposes of
 21 this section.

22 “(5) DOMESTIC CONTENT BONUS CREDIT
 23 AMOUNT.—

24 “(A) IN GENERAL.—In the case of any en-
 25 ergy project which satisfies the requirement

1 under subparagraph (B), for purposes of apply-
2 ing paragraph (1) with respect to qualified com-
3 bined heat and power system property that is
4 part of such project, the percentage specified in
5 paragraph (1) shall be increased by 10 percent-
6 age points.

7 “(B) REQUIREMENT.—Rules similar to the
8 rules of section 45(b)(9)(B) shall apply.

9 “(6) INCREASE IN CREDIT RATE FOR ENERGY
10 COMMUNITIES.—In the case of any energy project
11 that is placed in service within an energy community
12 (as defined in section 45(b)(11)(B), as applied by
13 substituting ‘energy project’ for ‘qualified facility’
14 each place it appears), for purposes of applying
15 paragraph (1) with respect to qualified combined
16 heat and power system property which is part of
17 such project, the percentage specified in paragraph
18 (1) shall be increased by 10 percentage points.

19 “(7) REGULATIONS AND GUIDANCE.—The Sec-
20 retary shall issue such regulations or other guidance
21 as the Secretary determines necessary to carry out
22 the purposes of this subsection, including regulations
23 or other guidance which provides for requirements
24 for recordkeeping or information reporting for pur-

1 poses of administering the requirements of this sub-
2 section.

3 “(b) CERTAIN PROGRESS EXPENDITURE RULES
4 MADE APPLICABLE.—Rules similar to the rules of sub-
5 sections (c)(4) and (d) of section 46 (as in effect on the
6 day before the date of the enactment of the Revenue Rec-
7 onciliation Act of 1990) shall apply for purposes of sub-
8 section (a).

9 “(c) DEFINITIONS.—For purposes of this section—
10 “(1) COMBINED HEAT AND POWER SYSTEM
11 PROPERTY.—

12 “(A) COMBINED HEAT AND POWER SYS-
13 TEM PROPERTY.—The term ‘combined heat and
14 power system property’ means property com-
15 prising a system—

16 “(i) which uses the same energy
17 source for the simultaneous or sequential
18 generation of electrical power, mechanical
19 shaft power, or both, in combination with
20 the generation of steam or other forms of
21 useful thermal energy (including heating
22 and cooling applications),

23 “(ii) which produces—

24 “(I) at least 20 percent of its
25 total useful energy in the form of

1 thermal energy which is not used to
2 produce electrical or mechanical power
3 (or combination thereof), and

4 “(II) at least 20 percent of its
5 total useful energy in the form of elec-
6 trical or mechanical power (or com-
7 bination thereof),

8 “(iii) the energy efficiency percentage
9 of which exceeds 60 percent, and

10 “(iv) the construction of which begins
11 on or after January 1, 2025.

12 “(B) LIMITATION.—

13 “(i) IN GENERAL.—In the case of
14 combined heat and power system property
15 with an electrical capacity in excess of the
16 applicable capacity placed in service during
17 the taxable year, the credit under sub-
18 section (a)(1) (determined without regard
19 to this paragraph) for such year shall be
20 equal to the amount which bears the same
21 ratio to such credit as the applicable ca-
22 pacity bears to the capacity of such prop-
23 erty.

24 “(ii) APPLICABLE CAPACITY.—For
25 purposes of clause (i), the term ‘applicable

1 capacity’ means 25 megawatts or a me-
2 chanical energy capacity of more than
3 33,500 horsepower, or an equivalent com-
4 bination of electrical and mechanical en-
5 ergy capacities.

6 “(iii) MAXIMUM CAPACITY.—The term
7 ‘combined heat and power system property’
8 shall not include any property comprising a
9 system if such system has a capacity in ex-
10 cess of 50 megawatts or a mechanical en-
11 ergy capacity in excess of 67,000 horse-
12 power, or an equivalent combination of
13 electrical and mechanical energy capacities.

14 “(iv) CLARIFICATION REGARDING CA-
15 PACITY DETERMINATIONS.—For purposes
16 of this subparagraph, the determination of
17 the electrical or mechanical energy capacity
18 of any system shall be based on the normal
19 operating rates of such system.

20 “(C) SPECIAL RULES.—

21 “(i) ENERGY EFFICIENCY PERCENT-
22 AGE.—For purposes of this paragraph, the
23 energy efficiency percentage of a system is
24 the fraction—

1 “(I) the numerator of which is
 2 the total useful electrical, thermal,
 3 and mechanical power produced by
 4 the system at normal operating rates,
 5 and expected to be consumed in its
 6 normal application, and

7 “(II) the denominator of which is
 8 the lower heating value of the fuel
 9 sources for the system.

10 “(ii) DETERMINATIONS MADE ON BTU
 11 BASIS.—The energy efficiency percentage
 12 and the percentages under subparagraph
 13 (A)(ii) shall be determined on a Btu basis.

14 “(iii) INPUT AND OUTPUT PROPERTY
 15 NOT INCLUDED.—The term ‘combined heat
 16 and power system property’ does not in-
 17 clude property used to transport the en-
 18 ergy source to the facility or to distribute
 19 energy produced by the facility.

20 “(D) SYSTEMS USING BIOMASS.—If a sys-
 21 tem is designed to use biomass (within the
 22 meaning of paragraphs (2) and (3) of section
 23 45(c) without regard to the last sentence of
 24 paragraph (3)(A)) for at least 90 percent of the
 25 energy source—

1 “(i) subparagraph (A)(iii) shall not
2 apply, but

3 “(ii) the amount of credit determined
4 under subsection (a) with respect to such
5 system shall not exceed the amount which
6 bears the same ratio to such amount of
7 credit (determined without regard to this
8 subparagraph) as the energy efficiency per-
9 centage of such system bears to 60 per-
10 cent.

11 “(2) ENERGY PROJECT.—The term ‘energy
12 project’ means a project consisting of one or more
13 qualified combined heat and power system properties
14 that are part of a single project.”.

15 (2) CLERICAL AMENDMENT.—The table of sec-
16 tions for subpart E of part IV of subchapter A of
17 chapter 1 of such Code is amended by inserting
18 after the item relating to section 48E the following
19 new item:

“48F. Credit for qualified combined heat and power system property.”.

20 (b) COORDINATION WITH ENERGY CREDIT.—Section
21 48(c)(3)(B) of such Code is amended by adding at the
22 end the following new clause:

23 “(iv) CLARIFICATION REGARDING CA-
24 PACITY DETERMINATIONS.—For purposes
25 of this subparagraph, the determination of

1 the electrical or mechanical energy capacity
 2 of any system shall be based on the normal
 3 operating rates of such system.”.

4 (c) CONFORMING AMENDMENTS.—

5 (1) Section 38(c)(4)(B)(x) of such Code is
 6 amended by inserting “or the credit for qualified
 7 combined heat and power system property deter-
 8 mined under section 48F” after “section 48”.

9 (2) Section 45L(f) of such Code is amended by
 10 striking “47 or 48(a)” and inserting “47, 48(a), or
 11 48F(a)”.

12 (3) Section 46 of such Code is amended by
 13 striking “and” at the end of paragraph (6), by strik-
 14 ing the period at the end of paragraph (7) and in-
 15 serting “, and”, and by adding at the end the fol-
 16 lowing new paragraph:

17 “(8) the credit for qualified combined heat and
 18 power system property.”.

19 (4) Section 48C(f) of such Code is amended by
 20 inserting “48F,” after “48E,”.

21 (5) Section 50(a)(2)(E) of such Code is amend-
 22 ed by striking “or 48E(e)” and inserting “48E(e),
 23 or 48F(b)”.

24 (6) Section 59A(b)(3)(C) of such Code is
 25 amended by inserting “or the credit for qualified

1 combined heat and power system property deter-
2 mined under section 48F” after “section 48”.

3 (d) EFFECTIVE DATE.—

4 (1) IN GENERAL.—Except as otherwise pro-
5 vided in this subsection, the amendments made by
6 this section shall apply to property the construction
7 of which begins after December 31, 2024.

8 (2) COORDINATION WITH ENERGY CREDIT.—

9 (A) IN GENERAL.—The amendment made
10 by subsection (b) shall apply to property—

11 (i) the construction of which begins
12 before January 1, 2025, and

13 (ii) which is placed in service during
14 taxable years beginning after December
15 31, 2024.

16 (B) NO INFERENCE.—The amendment
17 made by subsection (b) shall not be construed
18 to create any inference with respect to the prop-
19 er application of section 48(c)(3)(B) of the In-
20 ternal Revenue Code of 1986 with respect to
21 taxable years beginning before January 1,
22 2025.

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