

By: McLaughlin

H.B. No. 5600

Substitute the following for H.B. No. 5600:

By: Darby

C.S.H.B. No. 5600

A BILL TO BE ENTITLED

AN ACT

relating to incentives for the development of the clean hydrogen industry in this state, including tax benefits, loans, and grants for clean hydrogen projects, clean hydrogen workforce development, hydrogen powered motor vehicles, and certain items used to produce clean hydrogen.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subtitle F, Title 4, Government Code, is amended by adding Chapter 490J to read as follows:

CHAPTER 490J. CLEAN HYDROGEN DEVELOPMENT FUND

Sec. 490J.0101. DEFINITIONS. In this chapter:

(1) "Clean hydrogen" means hydrogen produced through methods that substantially reduce lifecycle greenhouse gas emissions as compared to conventional hydrogen production methods, including:

(A) electrolysis using electricity from renewable or nonrenewable sources, provided that overall lifecycle emissions are substantially reduced;

(B) natural gas reforming combined with carbon capture, utilization, or sequestration;

(C) nuclear energy-based hydrogen production; or

(D) any other method meeting applicable federal standards for low-carbon hydrogen production.

(2) "Clean hydrogen project" means a project located

in this state that is:

(A) a facility that produces clean hydrogen;

(B) a facility that uses hydrogen as a feedstock to produce fuels derived from hydrogen, including electro-fuels or e-fuels;

(C) infrastructure for the storage, transportation, distribution, purchase, or sale of hydrogen or fuels derived from hydrogen; or

(D) equipment used to capture, process, or utilize carbon dioxide in conjunction with hydrogen production or the production of fuels derived from hydrogen.

(3) "Electro-fuel" or "e-fuel" means a type of fuel derived from hydrogen that specifically uses hydrogen produced through electrolysis, including:

(A) electro-ammonia or e-ammonia;

(B) electro-methane or e-methane; and

(C) electro-methanol or e-methanol.

(4) "Fuel derived from hydrogen" means a fuel or chemical product manufactured using hydrogen as a primary feedstock, including:

(A) electro-fuels or e-fuels;

(B) sustainable aviation fuel; and

(C) other synthetic fuels that use hydrogen as a primary feedstock.

(5) "Fund" means the clean hydrogen development fund established under this chapter.

(6) "Sustainable aviation fuel" means aviation fuel

1 produced from hydrogen and carbon sources with significantly lower
2 lifecycle greenhouse gas emissions than conventional aviation
3 fuel.

4 Sec. 490J.0102. CLEAN HYDROGEN DEVELOPMENT FUND. (a) The
5 clean hydrogen development fund is a special fund in the state
6 treasury outside the general revenue fund to be administered by the
7 comptroller in consultation with the Texas Commission on
8 Environmental Quality and the Railroad Commission of Texas.

9 (b) The fund consists of:

10 (1) money the legislature appropriates for deposit to
11 the credit of the fund for purposes of this chapter;

12 (2) gifts, donations, and grants to the fund,
13 including federal grants;

14 (3) interest earned on the investment of money in the
15 fund; and

16 (4) money from any other source designated for deposit
17 into the fund.

18 (c) Money in the fund may be appropriated to the comptroller
19 only to provide low-interest loans and grants for:

20 (1) clean hydrogen projects, including projects in the
21 development or pre-operations stage;

22 (2) the development of a trading system located in
23 this state that enables the sale, purchase, and export of hydrogen
24 or fuel derived from hydrogen; and

25 (3) the manufacture of hydrogen electrolyzers and
26 related technologies in this state.

27 (d) A person must apply for a loan or grant from the fund in

1 the manner prescribed by the comptroller. In awarding a loan or
2 grant using money from the fund, the comptroller shall:

3 (1) consider, for the project that is the subject of
4 the application:

5 (A) the potential economic impact of the project,
6 including the effect on the number of jobs in this state;

7 (B) the emissions reduction benefits of the
8 project;

9 (C) the technological innovation encouraged by
10 the project;

11 (D) the project's contribution to grid stability
12 and energy security; and

13 (E) the ability of the state and local
14 governments to leverage federal funding or tax credits for the
15 project;

16 (2) consider the length of time the applicant has been
17 in business as of the date of the application; and

18 (3) prioritize applicants that are start-up or
19 pre-revenue generating entities or are relocating to this state.

20 (e) The comptroller may not prioritize an energy source or
21 technology used to produce hydrogen when awarding a loan or grant
22 using money in the fund.

23 (f) The comptroller shall establish eligibility
24 requirements for the award of a loan or grant using money in the
25 fund.

26 SECTION 2. Chapter 302, Labor Code, is amended by adding
27 Subchapter J to read as follows:

SUBCHAPTER J. CLEAN HYDROGEN WORKFORCE DEVELOPMENT GRANT PROGRAM

Sec. 302.301. DEFINITIONS. In this subchapter:

(1) "Clean hydrogen" and "fuel derived from hydrogen" have the meanings assigned by Section 490J.0101, Government Code.

(2) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(3) "Program" means the clean hydrogen workforce development grant program established under this subchapter.

Sec. 302.302. PROGRAM ESTABLISHMENT AND ADMINISTRATION.

The commission shall establish and administer the clean hydrogen workforce development grant program under which the commission may award grants to institutions of higher education to:

(1) provide workforce training for and higher education programs related to clean hydrogen jobs and the production, handling, and use of hydrogen and fuels derived from hydrogen; or

(2) develop curriculum or certification programs for hydrogen technology.

Sec. 302.303. GRANT ELIGIBILITY. To be eligible for a grant under the program established under Section 302.302, an institution of higher education must:

(1) apply to the commission in the manner prescribed by commission rule; and

(2) satisfy any other relevant criteria prescribed by commission rule.

SECTION 3. Section 151.317, Tax Code, is amended by adding Subsection (f) to read as follows:

1 (f) For the purposes of Subsection (a)(9), "gas" includes
2 hydrogen.

3 SECTION 4. Subchapter E, Chapter 152, Tax Code, is amended
4 by adding Section 152.094 to read as follows:

5 Sec. 152.094. TEMPORARY EXEMPTION FOR HYDROGEN MOTOR
6 VEHICLES. (a) In this section, "hydrogen motor vehicle" means a
7 motor vehicle powered by:

8 (1) hydrogen, including a hydrogen internal
9 combustion engine vehicle or hydrogen fuel cell vehicle;

10 (2) a fuel derived from hydrogen, as that term is
11 defined by Section 490J.0101, Government Code; or

12 (3) compressed natural gas, if the vehicle is
13 certified to operate on renewable methane or electro-methane.

14 (b) The taxes imposed by this chapter do not apply to the
15 sale, use, or rental of a hydrogen motor vehicle.

16 (c) This section expires September 1, 2035.

17 SECTION 5. Subchapter B, Chapter 171, Tax Code, is amended
18 by adding Section 171.089 to read as follows:

19 Sec. 171.089. EXEMPTION FOR LIMITED PERIOD--HYDROGEN
20 ELECTROLYZER MANUFACTURER. (a) Subject to Subsection (b), an
21 entity that is engaged in the business of manufacturing hydrogen
22 electrolyzers is exempted from the franchise tax if the entity
23 relocates to this state from another state in the United States.

24 (b) An exemption under this section terminates on the 10th
25 anniversary of the entity's beginning date.

26 SECTION 6. Chapter 171, Tax Code, is amended by adding
27 Subchapter Y to read as follows:

SUBCHAPTER Y. TAX CREDIT FOR CLEAN HYDROGEN PROJECTS

Sec. 171.9301. DEFINITIONS. In this subchapter:

(1) "Clean hydrogen project" and "fuel derived from hydrogen" have the meanings assigned by Section 490J.0101, Government Code.

(2) "Qualifying capital expenditures" means expenditures related to:

(A) hydrogen production, including the purchase of electrolyzers and related equipment;

(B) the transport, storage, or purchase of hydrogen or a fuel derived from hydrogen;

(C) equipment used to convert hydrogen into fuels or chemicals derived from hydrogen, including synthesis units and related processing equipment; and

(D) equipment used for the capture, processing, or utilization of carbon dioxide from various sources, including biogenic sources such as landfills, wastewater treatment facilities, and ethanol plants, and from anthropogenic sources from industrial processes.

Sec. 171.9302. ENTITLEMENT TO CREDIT. A taxable entity is entitled to a credit in the amount and under the conditions provided by this subchapter against the tax imposed under this chapter.

Sec. 171.9303. QUALIFICATION. A taxable entity qualifies for a credit under this subchapter if, during the period on which the report is based, the taxable entity develops or operates a clean hydrogen project.

Sec. 171.9304. AMOUNT OF CREDIT; LIMITATION. The amount of

the credit for a report is equal to the lesser of:

(1) 20 percent of the taxable entity's qualifying capital expenditures for the period on which the report is based; or

(2) the amount of franchise tax due for the report after applying all other applicable credits.

Sec. 171.9305. APPLICATION FOR CREDIT. (a) A taxable entity must apply for a credit under this subchapter on or with the report for the period for which the credit is claimed.

(b) A taxable entity must apply for the credit in the manner prescribed by the comptroller and include with the application any information requested by the comptroller to determine whether the entity is eligible for the credit under this subchapter.

Sec. 171.9306. ASSIGNMENT PROHIBITED; EXCEPTION. A taxable entity may not convey, assign, or transfer the credit allowed under this subchapter to another taxable entity unless substantially all of the assets of the taxable entity are conveyed, assigned, or transferred in the same transaction.

Sec. 171.9307. RULES. The comptroller shall adopt rules necessary to implement and administer this subchapter.

SECTION 7. Section 152.094, Tax Code, as added by this Act, applies only to a sale, use, or rental of a motor vehicle that occurs on or after September 1, 2025.

SECTION 8. The changes in law made by this Act to Chapter 171, Tax Code, apply only to a report originally due on or after January 1, 2026.

SECTION 9. The changes in law made by this Act do not affect tax liability accruing before the effective date of this Act. That

1 liability continues in effect as if this Act had not been enacted,
2 and the former law is continued in effect for the collection of
3 taxes due and for civil and criminal enforcement of the liability
4 for those taxes.

5 SECTION 10. This Act takes effect September 1, 2025.