To amend the Internal Revenue Code of 1986 to establish a tax credit for sequestration and capture of carbon through natural sources, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the [“Natural Carbon Sequestration Act”].

SEC. 2. CREDIT FOR CARBON SEQUESTRATION IN THE LAND SECTOR.

(a) In general.—Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of
1986 is amended by inserting after section 45S the following new section:

“SEC. 45T. CREDIT FOR CARBON SEQUESTRATION IN THE LAND SECTOR.

“(a) ALLOWANCE OF CREDIT.—For purposes of section 38, in the case of a qualified entity, the carbon sequestration credit for any taxable year is an amount equal to the sum of—

“(1) 30 percent of any qualified expenditures made by such entity during such year, and

“(2) subject to subsection (b)—

“(A) the applicable dollar amount, as determined under clauses (i)(I) and (ii)(I) of section 45Q(b)(1)(A), per metric ton of qualified carbon sequestration for such year, and

“(B) the applicable dollar amount, as determined under clauses (i)(II) and (ii)(II) of section 45Q(b)(1)(A), per metric ton of carbon equivalent of any carbon which is captured and used or utilized pursuant to subsection (e)(3).

“(b) VERIFICATION.—

“(1) IN GENERAL.—For purposes of determining the amount of the credit described in subsection (a)(2) for any taxable year, the amount of carbon sequestered or captured shall be verified, ac-
cording to procedures established by the Secretary of
Agriculture, by—

“(A) the Natural Resources Conservation
Service of the Department of Agriculture,
“(B) a conservation district,
“(C) a land-grant college or university
which has been approved by the Secretary of
Agriculture for purposes of this section, or
“(D) a non-profit or for-profit verifier
which has been approved by the Secretary of
Agriculture for purposes of this section.

“(2) METHODOLOGY.—For purposes of deter-
mining the quantity of qualified carbon sequestra-
tion under subsection (a)(2)(A), an entity described
in paragraph (1) shall determine the amount of any
carbon stored using any method which has been ap-
proved by the Secretary of Agriculture for purposes
of this section.

“(c) DEFINITIONS.—For purposes of this section—

“(1) CARBON.—The term ‘carbon’ means the
carbon equivalent of carbon oxide, nitrous oxide, or
methane.

“(2) CARBON EQUIVALENT.—The term ‘carbon
equivalent’ means, with respect to any gas described
in paragraph (1), the quantity of such gas as deter-
mined pursuant to table A–1 of subpart A of part 98 of title 40, Code of Federal Regulations, as in effect on the date of the enactment of the Natural Carbon Sequestration Act.

“(3) LAND SECTOR.—The term ‘land sector’ means any agricultural, range, forestry, or wetlands resource.

“(4) QUALIFIED CARBON SEQUESTRATION.—

“(A) IN GENERAL.—The term ‘qualified carbon sequestration’ means the amount (not less than zero) equal to—

“(i) the total quantity of carbon stock (expressed in tons of carbon equivalent) within the land sector which is owned by a qualified entity during [[the period of 1, 3 or 5]] taxable years, minus

“(ii) the total amount of carbon stock (expressed in tons of carbon equivalent) within the land sector which is owned by a qualified entity during the preceding baseline taxable year.

“(B) SEQUESTRATION METHODS.—For purposes of ensuring proper sequestration of carbon, a qualified entity may employ any prac-
tice that has been determined to have a reason-
able probability of success, including—

“(i) a qualified conservation practice standard for soil carbon,

“(ii) a practice developed by the entity in collaboration with any organization de-
scribed in subparagraphs (A) through (C) of subsection (b)(1), or

“(iii) for purposes of any forestry or wetland resource, any method which is ap-
proved by the Secretary of Agriculture that provides measurable increases in carbon sequestration above business-as-usual prac-
tices while promoting forest or wetland health.

“(C) QUALIFIED CONSERVATION PRACTICE STANDARD.—The term ‘qualified conservation practice standard’ means a conservation prac-
tice standard issued by the Natural Resources Conservation Service of the Department of Ag-
riculture relating to the sequestration of carbon.

“(5) QUALIFIED ENTITY.—

“(A) IN GENERAL.—The term ‘qualified entity’ means—
“(i) an entity engaged in commercial activities in the farming, ranching, forestry, or wetland restoration industry, or

“(ii) any State or political subdivision thereof, any Indian tribal government (within the meaning of section 7871), or any agency or instrumentality of any of the foregoing, provided that the carbon is sequestered or captured on property owned by such governmental entity.

“(B) ACTIVITIES ON PROPERTY OWNED BY GOVERNMENT.—For purposes of clause (i) of subparagraph (A), any activities described in such clause shall include any such activities which are carried out on property owned by a governmental entity described in clause (ii) of such subparagraph.

“(6) QUALIFIED EXPENDITURES.—

“(A) IN GENERAL.—The term ‘qualified expenditures’ means an expenditure for property or services used by the qualified entity to—

“(i) assess baseline carbon levels,

“(ii) determine the opportunity for further sequestration of carbon, or

“(iii) quantify carbon sequestered.
“(B) Labor costs.—Expenditures for labor costs properly allocable to any service or to onsite preparation, assembly, or original installation of property described in subparagraph (A) shall be taken into account for purposes of this section.

“(C) Timing of expenditure.—An expenditure described in subparagraph (A) shall be treated as made when the service or the original installation of the property is completed.

“(d) Recapture.—The Secretary, in coordination with the Secretary of Agriculture, shall, by regulations, provide for recapturing the benefit of any carbon sequestration credit allowable under this section with respect to any carbon which ceases to be sequestered in a manner consistent with the requirements under this section.

“(e) Special rules.—

“(1) Requirements regarding carbon.—The credit under this section shall apply only with respect to carbon the sequestered or capture of which is—

“(A) within the United States (within the meaning of section 638(1)) or a possession of
the United States (within the meaning of section 638(2)), and

“(B) quantified by the qualified entity, verified pursuant to subsection (b), and reported annually pursuant to paragraph (4).

“(2) CREDIT ATTRIBUTABLE TO TAXPAYER;

TRANSFERABILITY.—

“(A) IN GENERAL.—Except as provided in subparagraph (B) or in any regulations prescribed by the Secretary, any credit under this section shall be attributable to—

“(i) except as provided in clause (ii), the qualified entity which incurred the qualified expenditures or sequestered or captured the carbon, or

“(ii) in the case of any qualified entity described in subsection (c)(5)(A)(ii), the person described in subparagraph (B)(i) which is elected by such qualified entity.

“(B) ELECTION.—If the person described in subparagraph (A) makes an election under this subparagraph in such time and manner as the Secretary may prescribe by regulations, the credit under this section—
“(i) shall be allowable to any person that—

“(I) utilizes or uses the carbon in a manner described in paragraph (3),

“(II) is not the owner of the underlying property of the qualified entity but implements the carbon sequestration practices for such entity, or

“(III) ensures the capture or sequestration of the carbon pursuant to a contract with the qualified entity, and

“(ii) shall not be allowable to the person described in subparagraph (A).

“(3) Utilization or use of carbon.—Not later than [12 months] after the date of enactment of this section, the Secretary, in coordination with the Secretary of Agriculture, shall prescribe regulations and other guidance to identify any eligible use or utilization of carbon for purposes of paragraph (2) and subsection (a)(2)(B).

“(4) Reporting.—

“(A) In general.—No credit shall be allowed with respect to any taxable year for which a qualified entity which has not properly
reported through the program established pursuant to subsection (f)(2)—

“(i) baseline carbon levels for such year, and

“(ii) total qualified carbon sequestration for such [year/s].

“(B) REVIEW.—Not later than 5 years after the establishment of the program for reporting by qualified entities under this paragraph, and every 5 years thereafter, the Secretary, in coordination with the Secretary of Agriculture, shall review the effectiveness of such program and make any necessary improvements to such program.

“(f) REGULATIONS.—Not later than [12 months] after the date of enactment of this section, the Secretary, in coordination with the Secretary of Agriculture, shall—

“(1) prescribe such regulations and other guidance as may be necessary or appropriate to carry out this section, including regulations or other guidance to ensure proper application of subsection (d),

“(2) establish a program for reporting by qualified entities under subsection (e)(4),

“(3) establish procedures for verification under subsection (b)(1),
“(4) establish a program for approval of organizations described in subparagraph [(C) and] (D) of such subsection, and

“(5) establish methods for quantifying carbon sequestered or captured in the land sector for purposes of subsection (b)(2).”.

(b) CONFORMING AMENDMENTS.—

(1) Section 38(b) of such Code is amended by striking “plus” at the end of paragraph (31), by striking the period at the end of paragraph (32) and inserting “, plus”, and by adding at the end the following new paragraph:

“(33) the carbon sequestration credit determined under section 45T(a).”.

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 45S the following new item:

“Sec. 45T. Credit for carbon sequestration in the land sector.”.

(c) REPORT.—Not later than 2 years after the date of enactment of this Act, the Comptroller General of the United States shall submit to Congress a report which includes—

(1) an evaluation of the effectiveness of section 45T of the Internal Revenue Code of 1986 (as
added by this Act) in sequestering and capturing carbon,

(2) a cost comparison of avoided emissions pursuant to such section and other Federal programs aimed at reducing emissions, and

(3) recommendations to replicate, improve, or expand such section.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2020.