



The General Business Credit

April 29, 2026

The general business tax credit represents the sum of 41 separate business credits specified in [Internal Revenue Code \(IRC\) Section 38\(b\)](#). Each of these component credits is computed separately under its own IRC section, and then all of the credits are added together. For corporations, the most significant of these general business credits in terms of revenue cost is the credit for research and experimentation (IRC §41), followed by the low-income housing credit (IRC §42). Many of the credits relate to energy.

Credits not included in the general business credit include personal credits in IRC §§22-26 that are unrelated to business, the foreign tax credit (IRC §27), certain credits (IRC §30) relating to alternative fuel vehicles, and the credit for prior year alternative minimum tax liability (IRC §53).

The general business credit is a nonrefundable credit that is subject to a limitation based on the business's tax liability. Any credit that exceeds this limit may generally be carried back one year (or three years for IRC §6417 applicable credits, or five years for the IRC §45I marginal well production credit) and carried forward 20 years. Several components of the credits, known as "specified credits" (IRC §196), that remain unused at the end of the carryforward period may be deducted in the following year.

The general business credit for a tax year is the sum of

- the general business credit carryforwards to the year;
- the current year business credit (that is, the total of the component credits for the tax year); and
- the business credit carrybacks to the tax year.

Taxable Liability Limitation

The general business credit is subject to a limitation based on tax liability that varies for corporate and noncorporate taxpayers. Tax liability is calculated after nonrefundable, non-general business credits. The limit is calculated using three amounts. *Net income tax* is the sum of the taxpayer's regular tax liability and any alternative minimum tax (AMT) liability, reduced by specified nonrefundable credits. *Net regular tax liability* is the taxpayer's regular tax liability reduced by the specified nonrefundable credits. *Tentative minimum tax* is the amount calculated for purposes of the AMT.

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For corporations, the general business credit cannot exceed net income tax minus 25% of net regular tax liability above \$25,000. (For purposes of the tax liability limit, a corporation's tentative minimum tax is treated as zero. However, the AMT for corporations is included in the corporation's net income tax.)

For noncorporate taxpayers, the general business credit may not exceed net income tax less (1) the taxpayer's tentative minimum tax liability, or (2) if greater, 25% of net regular tax liability above \$25,000.

For [pass-through businesses](#), the \$25,000 ceiling for net regular tax liability must be apportioned between married individuals filing separately; among estates, trusts, and their beneficiaries; and among component members of a controlled group of corporations. Banks and other financial institutions, regulated investment companies (RICs), and real estate investment trusts (REITs) may use a limited ratable share of the \$25,000 net tax liability limit.

For several component credits of the general business credit, known as *specified credits*, a taxpayer's tentative minimum tax liability is deemed to be zero. Consequently, these credits are potentially deductible in full against AMT liability. The tax liability limitation is also modified to allow the empowerment zone employment credit component of the general business credit to offset up to 25% of a taxpayer's AMT liability.

Ordering Rules for the General Business Credit

Carryforwards of the general business credit are used first (starting with the earliest carryforwards), followed by the current year business credit, and then by any credits carried back to the tax year. Earned tax credits that are later repealed continue to be eligible for carryforwards. If the tax liability limit is exceeded for the tax year, the component credits of the carryforward, current year business credit, or carryback are used in the order the component credits are listed in [IRC §38\(b\)](#).

Elective Payment Election and Credit Transfers

Applicable entities may treat current applicable credits as direct tax payments against federal income taxes, thereby making the credits refundable. These include certain clean energy tax credits that were either enacted or modified in the Inflation Reduction Act of 2022 (P.L. 117-169). Applicable entities include tax-exempt organizations, state or political subdivisions, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, and rural electric cooperative corporations.

A taxpayer that is not an applicable entity may elect to [transfer \(sell\) eligible credits for cash](#). Eligible credits are the applicable credits, excepting the IRC §45W qualified commercial vehicle credit. However, if the business that generates the credit carries it forward or backward, the business is [barred](#) from selling that carried-forward or carried-back amount. For the buyer, there are no restrictions on carrying forward or carrying backward any unused amounts of purchased credits.

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