



## Inflation Reduction Act of 2022

### ***Summary***

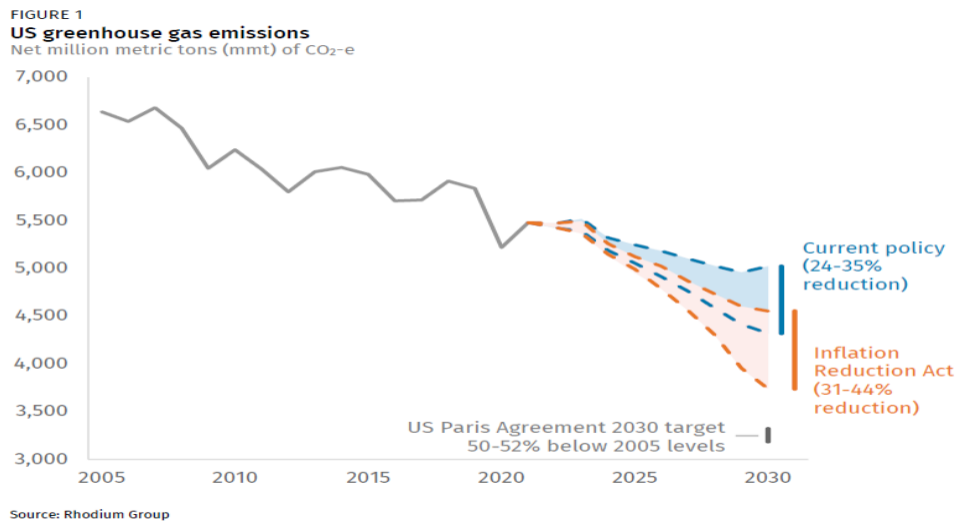
Legislation provides 10-year tax credits for clean energy technologies. The House of Representatives and Senate worked on their own climate proposals throughout 2020 and 2021, independent of one another. As a result, each took a different approach to establishing tax provisions for the climate bill. The House, under the leadership of Chairman Richard Neal (D-MA) chose to extend existing credits--adding new credits for technologies like energy storage--while the Senate, led by Finance Chair Ron Wyden (D-OR), chose to shrink the tax code by giving eligible entities the choice of either a production tax credit (“PTC”) or an investment tax credit (“ITC”). Because neither chamber could agree on which plan was better, they chose to divide the 10-year reconciliation bill. The first three years follow the House model, and the remaining seven, the Senate. Some credits—such as the electric vehicle (“EV”) credit--remain unchanged throughout the ten-year bill.

### **Top Line Estimates**

<b><u>Policy</u></b>	<b><u>Cost/Savings</u></b>
Clean Manufacturing Credits	<b>-\$385 billion</b>
Clean Electricity Grants and Loans	<b>-\$40 billion</b>
Clean Energy Technology Accelerator	<b>-\$30 billion</b>
Clean Agriculture Funding	<b>-\$30 billion</b>
Clean Vehicle Credits	<b>-\$30 billion</b>
Renewable Energy Credits	<b>-\$235 billion</b>
<b>Health Care</b>	<b>-\$100 billion</b>
<b><u>Total Spending</u></b>	<b>-\$485 billion</b>
<b>Revenue</b>	<b>\$470 billion</b>
15% Corporate Minimum Tax	<b>\$315 billion</b>
IRS Enforcement	<b>\$125 billion</b>
Closure of Carried Loophole	<b>\$15 billion</b>
Methane and Superfund	<b>-\$15 billion</b>
<b>Total, Savings and Revenue</b>	<b>\$790 billion</b>
<b><u>Net Deficit Reduction</u></b>	<b>\$305 billion</b>

\*Figures based upon Joint Committee on Taxation Analysis

## Environmental Impact



- ⇒ The Rhodium Group released [preliminary analysis](#) of the bill finding that the Inflation Reduction Act would cut US net greenhouse gas emissions down to 31% to 44% below 2005 levels in 2030 compared to 24% to 35% under current policy.
- ⇒ Repeat Project is still analyzing the bill, but Jesse Jenkins said the bill will “probably cut emissions by >800m & <1b tons in 2030 or to ~40% below 2005.”

### Section 1: Deficit Reduction

**Corporate Alternative Minimum Tax:** The Act creates a Corporate Alternative Minimum Tax (“AMT”) equal to 15% of financial statement income, less foreign tax credits, that applies to corporate taxpayers meeting an average annual adjusted financial statement income test – i.e., the corporate taxpayer’s average adjusted financial statement income for a three-year period exceeds \$1 billion.

**Higher Taxes on Carried Interest:** The Act contains provisions closing the so-called “carried interest loophole.” Current law taxes the performance-based compensation paid to managers of certain investment partnerships at long-term capital-gains rates rather than as ordinary income provided that a three-year holding period is met. The Act would generally (except in limited circumstances) require partners to hold investments for a period of five years to qualify for the long-term capital-gains rate.

**No Tax Increases on Certain Taxpayers:** The Act states that none of the IRS appropriations listed above will result in an increase in taxes on taxpayers with taxable income below \$400,000.

## **Section 2: Healthcare Subsidies**

Legislation extends expiring subsidies for individuals to purchase health insurance from Affordable Care Act marketplace. Also allows Medicare to directly negotiate prices with drug companies for the first time, with the goal of lowering costs.

## **Section 3: Energy Section**

### ***Part 1 (First 3 years or 2022-2024)***

Prior to passage of the Inflation Reduction Act, existing tax credits for renewable technologies are phasing down and less valuable. Should this bill become law, from 2022-2024, these credits are extended and restored to their full value. Further, technologies like energy storage are made eligible for the first time.

### **SEC. 13101/ SEC. 13102. EXTENSION AND MODIFICATION OF CREDITS FOR ELECTRICITY PRODUCED FROM RENEWABLE RESOURCES.**

Legislation extends all existing credits for clean energy generation to January 1, 2025. In doing so, this provision also increases the credit to its full value (both the ITC and PTC were phasing down). Provision also changes structure of credit, reducing the base value of the PTC to .3 cents, but allowing taxpayers to realize the full value (1.5 cent) if prevailing wage and apprenticeship rules are followed. Likewise, the ITC is granted a base value of 6%, increasing to 30% if labor rules are used.

BONUS Credit(s)—

Provision adds additional value of 10% if project meets domestic content standards. Domestic content means all steel, iron and manufactured products must be produced in the United States. Manufactured products would be considered U.S. made if at least 40% of all the manufactured products used in the project are U.S. made. The percentage would increase for projects that start construction after 2024 and eventually reach 55% for projects with 2027 or later construction-start dates. The percentage for offshore wind projects would start at 20% and increase over time, reaching 55% for projects with 2028 or later construction starts.

Another bonus of the same value is available if the project is located in an “energy community” (defined as either a brownfield site, or a location previously used for fossil energy).

The cumulative effect of this section means a project could receive an ITC as high as 50%.

### **Newly Eligible Technologies**

Section also makes energy storage, biogas, interconnection, and microgrids eligible for the investment tax credit. Same rules will apply for these technologies.

**SEC. 13103. INCREASE IN ENERGY CREDIT FOR SOLAR AND WIND FACILITIES PLACED IN SERVICE IN CONNECTION WITH LOW-INCOME COMMUNITIES**

Section provides additional credit of 10% for solar and wind projects constructed in low-income or native communities. A 20% bonus is offered for low-income residential building projects or a qualified low-income economic benefit project.

**SEC. 13104. EXTENSION AND MODIFICATION OF CREDIT FOR CARBON OXIDE SEQUESTRATION**

Under the bill, the deadline for 45Q carbon capture projects — as well as direct air capture or carbon utilization projects are extended, with the “commence construction” deadline from the end of 2025 to the end of 2032.

The provision provides a \$20 per metric ton of carbon dioxide that is permanently stored, and \$10 per metric ton of carbon dioxide that is permanently stored and used as a tertiary injectant. The rate is also indexed for inflation.

**SEC. 13105. ZERO EMISSION NUCLEAR POWER PRODUCTION CREDIT**

Creates a new production tax credit for nuclear power.

**SEC. 13201. EXTENSION OF INCENTIVES FOR BIODIESEL, RENEWABLE DIESEL AND ALTERNATIVE FUELS**

Extends the biodiesel and renewable diesel credit to December 31, 2024.

**SEC. 13204. CLEAN HYDROGEN**

Bill creates a new, \$3 per kilogram tax credit for hydrogen production (using low emission methods).

**SEC. 13301. EXTENSION, INCREASE, AND MODIFICATIONS OF NONBUSINESS ENERGY PROPERTY CREDIT.**

Increases credit available for individual to make energy efficiency improvements at their home to \$1,200 (except in the case of heat pumps, which have a limit of \$2,000).

**SEC. 13302. RESIDENTIAL CLEAN ENERGY CREDIT**

Extends the Section 25 investment tax credit for residential systems to January 1, 2033. Raises available rate to 30%. Also adds energy storage as an eligible technology (must be at least 3kWh).

## **SEC. 13401. CLEAN VEHICLE CREDIT**

The tax credit for electric vehicles has been significantly changed to target cars manufactured in the U.S. The original credit was for \$7,500 per vehicle and capped eligibility at 200,000 per manufacturer. Should this bill become law, the credit would look as follows:

- ⇒ Provision extended to 2032 with no unit-per-manufacturer cap starting after December 31, 2022;
- ⇒ Credit remains \$7,500 for a new clean vehicle but is broken down to \$3,750 for meeting domestic critical mineral and battery component requirements;
- ⇒ To qualify for the credit, vehicles must source 80% of their critical minerals from the U.S., North America, or allied countries by 2027;
- ⇒ and must source/manufacture 100% of battery components domestically by 2029. AGI Limitations: \$150,000 single and \$300,000 joint filers;
- ⇒ Also creates MSRP limitations of \$80,000 for Vans, SUVs, and Pickup Trucks; All other vehicles: \$55,000.
- ⇒ Also creates a new credit for used vehicles of \$4,000.

## **SEC. 13501. EXTENSION OF THE ADVANCED ENERGY PROJECT CREDIT**

Reestablishes Clean Energy Manufacturing Investment Tax Credit (originally created as part of the American Recovery and Reinvestment Act and expired in 2013). Provides a 30% ITC for clean energy manufacturing facilities (capped at \$10 billion). Program sets aside at least 40% of funding for projects in energy communities (brownfields/fossil energy sites).

## **SEC. 13502. ADVANCED MANUFACTURING PRODUCTION CREDIT**

Provides production tax credit for solar, wind and battery facilities until 2032.

- ⇒ In the case of electrode active materials, a credit equal to 10% of the costs. Electrode active materials is defined as “cathode materials, anode materials, anode foils, and electrochemically active materials, including solvents, additives, and electrolyte salts that contribute to the electrochemical processes necessary for energy storage”;
- ⇒ In the case of a battery cell, \$35 per kWh;
- ⇒ In the case of a battery module, \$35 per kWh;
- ⇒ 10% of the costs incurred for critical minerals necessary for battery production.

### ***Part 2 (2025-2032)***

For these years, all renewable energy generations sources can choose between a PTC (Sec.13701) or an ITC (Sec. 13702).

## **SEC. 13701. CLEAN ELECTRICITY PRODUCTION CREDIT**

Creates a 1.5 cent per kWh PTC for clean energy generation, if prevailing wage and apprenticeship standards are met.

#### **SEC. 13702. CLEAN ELECTRICITY INVESTMENT CREDIT**

Alternative to 13701, provision creates a 30% ITC available to renewable technologies and energy storage projects. Like the earlier credit, bonus credits are available for domestic content and energy communities.

#### **SEC. 13801. ELECTIVE PAYMENT FOR ENERGY PROPERTY AND ELECTRICITY PRODUCED FROM CERTAIN RENEWABLE RESOURCES.**

While earlier versions of the legislation provided the option of utilizing direct payment, essentially cash in lieu of a credit for all provisions, for at least two years, the final version of the legislation limits this election to nonprofits, state and local governments, tribes and coops.

#### **SEC. 6418. TRANSFER OF CERTAIN CREDITS.**

Allows for transferability of projects to eligible taxpaying entity.

#### **SEC. 22002. RURAL ENERGY FOR AMERICA PROGRAM.**

Provides Rural Energy for American Program (“REAP”) with additional \$1.72 billion for clean energy projects in rural communities.

#### **SEC. 50141. FUNDING FOR DEPARTMENT OF ENERGY LOAN PROGRAMS OFFICE**

Provides the Loan Program Office at DOE with an additional \$40 billion in loan authorization.

#### **SEC. 60103. GREENHOUSE GAS REDUCTION FUND**

Provides \$27 billion to fund a national climate bank. Entity would be a nonprofit organization and not under the direct purview of the federal government. Legislation instructs the bank to focus funding on projects in low-income and coal-transitioning communities and to fill financing gaps not covered by existing tools.