



# Inflation Reduction Act Climate Tax Incentives

Prepared by the *Majority Tax Staff* for  
the Senate Finance Committee



# Overview

- The IRA is the largest federal investment in climate in U.S. history, projected to reduce emissions by 40 percent by 2030, putting our nation within reach to meeting President Biden's commitment of 50-52 percent.
- The vast majority of the IRA's climate investments are run through the tax code.

# Things to Know About Tax Incentive

- Generally, unlike grants, there is not a dollar cap on incentives – eligibility is based on whether you meet the rules.
- With certain exceptions, no upfront applications – you just claim on your tax return. Some exceptions include:
  - Two allocated credits that function similarly to grants, with dollar limits
    - Low-income communities bonus: solar/wind projects for low-income communities (1.8GW/year)
    - “48C” credit for building or expanding manufacturing/industrial facilities (\$10B total)
  - Credit monetization: direct pay and transferability
- Most provisions went into effect January 1, 2023. But taxpayers may still be waiting on Treasury/IRS guidance to be certain they are eligible
- More guidance is yet to come
  - To see currently available guidance, go to: <https://www.irs.gov/credits-and-deductions-under-the-inflation-reduction-act-of-2022> (be sure to check out the FAQs at the bottom of the page on vehicles/efficiency)

# Opportunities for Nonprofits, Government Businesses

- Treasury/IRS are working on guidance for credit monetization:
  - For the first time, nonprofits, public power, and other governmental entities can directly take advantage of many tax incentives through “direct pay,” which functionally allows entities to claim the value of the credit as a refund.
  - Taxpayers not eligible for direct pay can use a new “transferability” provision to transfer the credit to another taxpayer in return for cash.

# Opportunities for Nonprofits, Government Businesses (cont.)

- Section 48 Investment Tax Credit

Examples	Value
<ul style="list-style-type: none"><li>• Solar, wind, geothermal, hydropower, biomass, municipal solid waste, etc.</li><li>• Energy storage, such as battery storage</li><li>• Microgrid controllers</li><li>• Geothermal heat pumps</li></ul>	<p>Generally 30% of cost of property, with the following bonuses (possible to stack to 70%):</p> <ul style="list-style-type: none"><li>• +10% – Domestic Content – 100% steel/iron, and a sliding scale for manufactured products</li><li>• +10% – Energy Communities (brownfields sites, areas with high unemployment and fossil employment/tax revenues, census tracts surrounding coal mine/plant closures)</li><li>• Low-Income-Communities (allocated) – Small solar/wind projects meeting either:<ul style="list-style-type: none"><li>• +10% – located in low-income communities, including solar leases for single-family residential, OR</li><li>• +20% – affordable housing or low- and moderate-income community solar</li></ul></li></ul> <p>Applications start in the third quarter or later this year and will be reviewed by the Department Of Energy: <a href="https://www.irs.gov/newsroom/treasury-and-irs-provide-guidance-on-energy-projects-for-low-income-communities">https://www.irs.gov/newsroom/treasury-and-irs-provide-guidance-on-energy-projects-for-low-income-communities</a></p>

# Opportunities for Nonprofits, Government Businesses (cont.)

- Vehicles

- Section 30C EV Charging credit - up to 30% of cost of property, limited to low-income or rural census tracts
- New Section 45W Commercial EV Credit
  - Up to 30% credit for the cost of purchasing a zero-emission vehicle (15% for plug-in hybrids) for non-personal use (not subject to content/assembly rules for new personal-use vehicles)
  - This includes medium- and heavy-duty vehicles, such as delivery vans, busses, trash trucks, etc.
  - Available IRS guidance here: <https://www.irs.gov/credits-deductions/commercial-clean-vehicle-credit>

- Energy Efficiency - Section 179D Energy efficient commercial property deduction

- Expanded in IRA, now capped at \$5/sq ft deduction with a new option for retrofits: buildings to use their own energy use intensity
- Can now be combined with low-income housing tax credits
- Rather than direct pay, governments (and newly nonprofits due to IRA) can transfer the value of the deduction to a designer/architect

# Other Sector-Specific Business Credits

- Clean electricity generation (Utilities, Developers, etc.)
  - In addition to the section 48 Investment Tax Credit already covered, taxpayers that sell power can instead claim a credit based on the electricity produced
  - In 2025, the investment and production tax credits transition to new technology-neutral credits where any zero-GHG technology can qualify
- Clean fuels
  - Current biodiesel and second generation fuels credits are extended through 2024
  - In 2025, transitions to new fuels credit for producers, with greater credit for cleaner fuels
- Clean hydrogen – up to \$3/kg for production of clean hydrogen
- Carbon capture - expanded credits generally up to \$85/metric ton captured and geologically stored or \$60/ton captured and used in enhanced oil recovery or for commercial utilization
- New energy efficient home credit - generally \$2,500 per unit built based on Energy Star construction programs, or \$5,000 for net zero ready
- Manufacturing
  - Section 48C Allocated Advanced Manufacturing Credit
    - \$10B pool of allocated credits for 30% of the cost of building or expanding manufacturing/industrial facilities that produce clean technologies, or the cost of reducing greenhouse gas emissions from manufacturing/industrial facilities
    - DOE will start accepting concept papers on May 31 for the first \$4B: <https://www.irs.gov/newsroom/irs-and-treasury-provide-guidance-on-the-qualifying-advanced-energy-project-credit>
  - Section 45X Advanced Manufacturing Production Tax Credit – credit for facilities per solar, wind, battery component or critical mineral produced

# Labor and Domestic Content

- Labor: Many incentives require entities to pay prevailing wage and meet minimum requirements on apprentices (labor hours/number of) to receive full value
- Domestic Content:
  - Bonus credit in effect
  - Phases down value of direct pay starting next year (but statute provides for waivers due to cost or nonavailability)
- More Treasury guidance forthcoming



# Opportunities for Individuals (Vehicle

- Personal-use Vehicles

- New Clean Vehicles (EV, plug-in hybrid, fuel cell)
  - Up to \$7,500 for the purchase of a new clean vehicle
  - Final assembly must be in North America (see <https://afdc.energy.gov/laws/electric-vehicles-for-tax-credit#/tab-2023> for vehicle list)
  - Additional content requirements on where the battery components or critical minerals are produced likely to go into effect for vehicles consumers receive **later this month**
  - Limited to taxpayers with adjusted gross incomes of \$300,000 married, \$150,000 single, \$225,000 head of household
- New Used Vehicles
  - Up to \$4,000 for the purchase of a used clean vehicle (Not subject to content/assembly rules)
  - Must purchase from a participating dealer
  - Limited to taxpayers with adjusted gross incomes of \$150,000 married, \$75,000 single, \$112,500 head of household
- See additional IRS guidance here: <https://www.irs.gov/newsroom/frequently-asked-questions-about-the-new-previously-owned-and-qualified-commercial-clean-vehicles-credit>

- EV Charging

- Up to 30 percent of the cost (max credit of \$1,000) of installing charging property in a taxpayer's principal residence
- Now limited to low-income and rural census tracts

# Opportunities for Individuals (Energy Eff Residential Energy)

- Residential clean energy credit – up to 30% of the cost of rooftop solar, small wind, battery storage, geothermal heat pumps, and fuel cells
- Energy efficient property credit - Up to 30% of the cost of the below improvements
  - Capped at credit of \$1,200 per year generally (with an additional \$2,000 per year for heat pumps, heat pump water heaters, and biomass stoves/hot water boilers)
    - Windows, doors, insulation
    - Heat pumps, heat pump water heaters
    - Biomass stoves/hot water boilers
    - Central ACs
    - Natural gas, propane, or oil water heaters, furnaces, or hot water boilers
    - Electric panel upgrades (if done in connection with other property eligible for the credit)
    - Home energy audits
  - Eligibility generally based on Energy Star or the Consortium for Energy Efficiency
- See additional IRS guidance here: <https://www.irs.gov/credits-deductions/frequently-asked-questions-about-energy-efficient-home-improvements-and-residential-clean-energy-property-credits>

# Resources

- To see currently available guidance, go to:  
<https://www.irs.gov/credits-and-deductions-under-the-inflation-reduction-act-of-2022> (be sure to check out the FAQs at the bottom of the page on vehicles/efficiency)
- If you or an association/coalition you are a part of wishes to submit comments to Treasury/IRS, the notices requesting comment are available at:
  - <https://www.irs.gov/newsroom/irs-asks-for-comments-on-upcoming-energy-guidance>
  - <https://www.irs.gov/newsroom/irs-seeks-comments-on-upcoming-energy-guidance>