ENERGIZE YOUR FINANCES

Energy Tax Credits in the Inflation Reduction Act

The Inflation Reduction Act (IRA) includes a range of energy tax credits designed to encourage transitioning to clean energy production, advanced manufacturing, adoption of clean vehicles (CVs) and reduced greenhouse gas emissions through alternative fuels and energy-efficient technologies. The expansion of the production tax credit (PTC) and the energy component of the investment tax credit (ITC) are major elements of the IRA. These include extending and modifying the carbon oxide sequestration credit (CSC), and tax credits for clean hydrogen production and zero-emission nuclear production.

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The energy tax credit regime is complicated with detailed definitions, technical requirements, specific construction start date and placed-in-service date cutoffs, phase-in and phase-out dates, domestic content requirements, tax-exempt financing rules, and many other nuances. Various technologies may be eligible for multiple credits, but there are rules to prevent double application of tax credits. Cherry Bekaert's Energy Tax Credits & Incentives team is here to assist with careful analysis to choose the right mix of credits and maximize tax benefits.

Overview of Energy Tax Credits and Deductions

Production Tax Credit (PTC): Section 45

- Section 45 provides a tax credit for electricity produced from certain renewable resources, including wind, closed and open-loop biomass, geothermal, solar, municipal solid waste, hydropower, and marine or hydrokinetic energy.
- The tax credit applies to a 10-year period of energy produced by the taxpayer from qualified resources at a qualified facility and sold to an unrelated party.
- The construction start deadline goes through the end of 2024.

Energy-Efficient Home Credit: Section 45L

- The credit goes to eligible contractors for newly built or substantially renovated energy-efficient homes.
- There is a $5,000 maximum for this credit and it is available through 2032.
- The energy-saving requirements are for taxpayers to conform to certain Energy Star national program and regional program requirements. The Energy Star and the Zero Energy Ready Home (ZEHR) programs also require certifications.
- The bonus credit is five times the base amount if the project meets prevailing wage requirements.

Energy-Efficient Commercial Buildings Deduction: Section 179D

- Section 179D is available for commercial building owners and those that work on the construction of these buildings, including architects, engineers and other designers.
- To qualify for this tax deduction, qualifying property must reduce energy consumption by 25% as compared to a reference an American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) building.
- The tax credit is up to $5 per square foot of the commercial building, adjusted for inflation.
- Section 179D is a permanent tax deduction.
- The bonus deduction is five times the base amount if the project meets prevailing wage and apprenticeship requirements.

Production Tax Credit: Section 45Y

- After the existing PTC phases out at the end of 2024, the Section 45Y clean electricity production credit will come online.
- This technology-neutral tax credit has the same two-tier structure and 10-year credit period as the PTC.
- If the greenhouse gas emissions rate at the facility producing the electricity is not greater than zero, the facility will be a qualified facility for purposes of the tax credit.
- This credit is available for projects that begin after December 31, 2024.
- Section 13703 offers an additional tax deduction for facilities or property qualifying for this tax credit. These facilities or properties will be treated as a five-year property for purposes of cost recovery.

Advanced Manufacturing Production Credit: Section 45X

- The Section 45X credit covers a wide range of components used in solar energy, wind energy, certain inverters (related to solar and wind), qualifying battery components and applicable minerals.
- While the prevailing wage and apprenticeship bonus amounts are not available for this credit, taxpayers can utilize the direct pay and transferability options.
- The full credit only applies to components sold after December 31, 2022, and phases down for components sold after December 31, 2029.

Investment Tax Credit: Section 48 and 48E Clean Electricity Investment Credit

- Section 48 allows eligible taxpayers to receive a credit for the energy percentage of the value of energy-related assets used during the tax year. This offers an immediate tax credit for investing in energy-related assets instead of spreading it out over multiple years.
- Section 48E is a clean electricity investment credit that applies to qualified facilities and energy storage technologies with greenhouse gas emissions rates no greater than zero.
- The baseline energy credit percentage is 6%, and can be increased to 30% if prevailing wage and apprenticeship requirements are met.
- This credit comes into service beginning in 2024.
- If certain domestic content requirements and projects in energy communities are met, the tax credit is increased by 10%.

Advanced Energy Project Credit: Section 48C

- Taxpayers who win an allocation award and receive project certification will get a credit based on their investment in qualifying advanced energy projects.
- A bonus tax credit (30%) will be applied if the project meets the prevailing wage and apprenticeship requirements.
- A qualifying advanced energy project is a project which re-equips, expands or establishes an industrial or manufacturing facility which is used to produce or recycle a wide range of clean energy technologies; equipment designed to reduce greenhouse gas emissions by at least 20%; or processing, refining or recycling of critical materials.
- Businesses can claim a 30% credit for projects meeting prevailing wage and apprenticeship requirements.
- Application process for Section 48C funding is released in phases. Cherry Bekaert's Energy Credits & Incentives team will share the latest updates and deadlines.

Credit for Qualified Commercial CVs: Section 45W

- Businesses can claim a tax credit for qualified commercial CVs placed in service after 2022 and before 2033.
- The credit equals the lesser of either 15% of the CV's basis (30% of the CV cannot be powered by gasoline or diesel), or the incremental cost of the vehicle (how much the CV's purchase price exceeds the price of a comparable vehicle).
- The maximum credit for a CV with a gross vehicle weight rating of less than 14,000 pounds is $7,500 and for all other vehicles is $40,000.

Alternative Fuel Vehicle Refueling Property: Section 30C

- This tax credit allows for up to 30% of the cost of alternative refueling equipment that is put into use until 2023.
- For depreciable equipment, the tax credit is reduced to 6% unless it meets the qualifying wage and apprenticeship requirements.
- The tax credit is limited to $100,000 per property that is put into use after 2022.
- Eligible equipment must also be put into use after 2022 and located in either a low-income area or rural area.
- Businesses can claim a 30% credit for projects meeting prevailing wage and apprenticeship requirements.

Biodiesel and Renewable Diesel Used as Fuel Credit: Section 40A

- These tax credits are for biodiesel and diesel fuel mixtures, biodiesel used or sold by a taxpayer in their trade or business, and the production of qualified agri-biodiesel through the end of 2024.
- Fueling equipment for natural gas, propane, hydrogen, electricity, E85 or diesel fuel blends containing a minimum of 20% biodiesel, is eligible for a tax credit of 30% of the cost or 6% in the case of property subject to depreciation, not to exceed $100,000.

Alcohol Fuel, Biodiesel and Alternative Fuel Mixtures Credit: Section 6426

- The alternative fuel mixture credit is 50 cents per gallon of alternative fuel used by the taxpayer in producing any alternative fuel mixture for sale or use in a trade or business of the taxpayer.
- The credit is available through 2024.

Sustainable Aviation Fuel Credit: Section 40B

- Section 40B is a tax credit for sustainable aviation fuel and kerosene produced by a taxpayer in the U.S. and sold or used in its trade or business in 2023 or 2024.
- The credit is calculated by multiplying the number of gallons of sustainable aviation fuel the mixture contains by a $1.25 base, with the base amount increasing up to an additional 50 cents if certain greenhouse gas emissions reductions are met.

Clean Fuel Production Credit: Section 45Z

- The Section 45Z tax credit is available for clean fuel produced by a taxpayer at a qualified facility from 2025 through 2027.
- The tax credit is computed by multiplying a 20-cent base amount (35 cents in the case of sustainable aviation fuel) per number of gallons sold for qualifying uses by certain emissions reduction factors.
- Bonus credit available: The base amount increases to $1 ($1.75 in the case of sustainable aviation fuel) if certain prevailing wage and apprenticeship requirements are met.
- The tax credit is five times the base amount for facilities that meet prevailing wage and apprenticeship requirements.

Bonus Energy Credits and Qualifying Information: Glossary of Key Terms

Some of the tax credits also may qualify for a bonus credit. Projects that began construction prior to January 31, 2023, and meet the prevailing wage and apprenticeship requirements will be eligible. This is designed to encourage competitive wages and job growth in the renewable energy sector and applies to most of the clean energy production credits. There are also several methods to determine the construction start date, including physical start date or meeting a safe harbor for a percentage of total costs incurred.

Prevailing Wage Requirement: Any laborers or mechanics employed during construction of the project must be paid prevailing wages for the locality in which the project is located. The prevailing wage rate is determined by the Department of Labor. Further, prevailing wages must be paid for repairs or alterations to the facility for a period after the project is placed in service. If a taxpayer fails to pay prevailing wages, it can be corrected by paying the difference plus interest and paying a $5,000 per worker penalty to the IRS. The penalty is increased to $10,000 per worker for intentional disregard of the rules.

Apprenticeship Requirement: To meet this requirement, taxpayers must have a percentage of total labor hours for construction, repair or alteration of an energy facility that is performed by qualified apprentices. A qualified apprentice is an individual who is employed by the taxpayer or by any contractor or subcontractor and is participating in a registered apprenticeship program. The applicable percentage increases over time:

- 10% for construction that begins before 2023
- 12.5% for construction that begins during 2023
- 15% for construction that begins after 2023

If a taxpayer fails to meet the apprenticeship requirements, the penalty is $50 multiplied by the shortage in hours. This penalty increases to $500 per hour for intentional disregard.

Domestic Content: The domestic content bonus credit applies to Section 45, Section 48, Section 45Y and Section 48E credits. The taxpayer must certify that any steel, iron or manufactured product which is a component of a qualified facility was produced in the U.S. Manufactured products are deemed to meet the domestic content requirement if a certain percentage of the total cost of all manufactured products in the facility are attributable to products that are mined, produced or manufactured in the U.S.

Let Us Be Your Guide Forward

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