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Certified Public Accountants

Renewable Energy Sector Gets New Tax Incentives from Inflation Reduction Act

The Inflation Reduction Act (IRA) became law on August 16, 2022. It includes considerable expansions of existing tax credits in manufacturing and other areas, and it establishes several new tax credits. The credits offer incentives for the production and use of renewable energy. They include credits for clean energy production, sustainable building practices and the use of electric vehicles (EVs). Four tax credits in particular — including a new credit established by the IRA — should be of particular interest to manufacturing companies that produce equipment used in EVs and other "green" energy projects. Read on to learn more about these tax credits.

Advanced Manufacturing Production Credit

Section 13502 of the IRA creates a new tax credit known as the advanced manufacturing production credit (AMPC) and codified as § 45X of the Internal Revenue Code (IRC). It provides a tax credit for the manufacture and sale of "eligible components" starting in the tax year 2023. A taxpayer must meet the following criteria to be eligible for the tax credit:

- They produce the components as part of their business or trade.
- They sell the component to an "unrelated person" during the tax year. The tax credit could be allowed for sales to a "related person," subject to regulations that the IRS will make known at some point in the future.

The statute's definition of "eligible components" includes:

- Wind power components
- Solar power components
- Various types of inverters
- Certain types of battery components
- "Applicable critical minerals"

The IRA identifies specific amounts that taxpayers may claim for different components. It expresses some credits as formulas. The AMPC for a battery cell, for example, is 35 times the cell's capacity in kilowatt-hours (kWh). For critical minerals, the AMPC is 10% of the taxpayer's production costs.
The amount of the AMPC for most components will start to go down in the tax year 2030. It will be 75% of the amounts shown in the statute that year. In 2031, it will be 50%, followed by 25% in 2032. It will not be available in 2033 or later.

Production Tax Credit

The production tax credit (PTC) provides a tax credit over a 10-year period to taxpayers that generate various types of renewable energy. The IRA reinstates some PTCs that had expired, expands, or extends others and creates new ones. The amount of the credit is based on the number of kilowatt-hours generated during the tax year, with annual adjustments for inflation. The base value of the PTC for 2022 is $0.26 per kWh. The projects must begin construction before 2025 to be eligible for the credit.

Multiple sections of the IRA address PTCs. The law increases the rate for some PTCs by 10% if they meet "domestic content" requirements with regard to steel, iron or manufactured products used for energy production. Manufactured products meet the IRA's requirement if at least 40% of their costs were spent in the U.S.

Investment Tax Credit

The investment tax credit (ITC) provides a tax credit to offset the cost of installing clean energy production facilities. It is similar in many ways to the PTC. One important difference is that the ITC is available all at once, while the PTC is spread out over a 10-year period. Many types of facilities may choose between the PTC or ITC, but they cannot claim both tax credits.
The amount of the ITC is 6% of the installation cost, or 30% if the facility meets any one of the following criteria:

- Its maximum output is less than one megawatt.
- Construction begins by a certain date before the IRS publishes guidance on prevailing wage and apprenticeship requirements.
- The facility meets the standards set by the IRS for prevailing wages and apprenticeships.

A taxpayer can increase the amount of the credit by meeting the "domestic content" requirements discussed above. An ITC of 30% would increase to 40% if the taxpayer meets those criteria.

Clean Vehicle Credit

Section 13401 of the IRA replaces the existing tax credit for electric vehicles with a clean vehicle credit (CVC), found in IRC § 30D. Taxpayers may receive a credit for every "new clean vehicle" that they put into service during a tax year. The total amount of the credit can be as much as $7,500.

A credit of $3,750 is available if the vehicle's battery includes "critical minerals." This term refers to certain materials that were either:

- Obtained or processed in the U.S. or a country that has a free-trade agreement with the U.S.; or
- Recycled in North America.

The percentage of the battery that must consist of critical materials will start at 40% and increase each year until it reaches 80% in 2027. This section of the IRA uses the same definition of “critical mineral” used for the AMPC, found in IRC § 45X(c)(6). The list includes aluminum, chromium, graphite, lithium, nickel, tin, platinum and zinc, among many others.

The second $3,750 credit is available when a specified percentage of the vehicle’s battery was manufactured or assembled in North America. The percentage starts at 50% and will increase annually, reaching 100% in 2029.

The CVC is not available for certain electric vehicles with critical minerals or battery components from a “foreign entity of concern.” This includes foreign governments and other organizations that have received adverse designations from the Secretary of State, Attorney General, Secretary of the Treasury or Secretary of Energy.

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