

Inflation Reduction Act

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Although the Inflation Reduction Act is 728 pages, it distills to a few basic points.

It restores renewable energy tax credits to the full rate for projects put in service from 2022 through at least the early 2030s. PTCs can be claimed on solar projects. This part of the bill is retroactive to the start of this year.

The tax credits could be higher, depending on the location of the project and whether it uses domestic content.

There are also new tax credits for standalone storage, for making clean hydrogen or renewable natural gas and for manufacturers who make components for wind, solar and storage projects and chemicals that are needed for the green economy. There are higher tax credits for carbon capture.

transmission

The bonus credits and new tax credits apply only to projects placed in service in 2023 or later or components produced and sold in 2023 or later.

All of this comes with two bits of fine print. Construction contractors must pay the same “prevailing wages” that are paid on federal construction jobs and use qualified apprentices for 10% to 15% of total labor hours, but not for projects that are under construction within 59 days after the IRS issues guidance.

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A domestic content requirement acts as a carrot and a stick for projects that use US-made materials. The carrot is a higher tax credit. The stick is poorly drafted.

The industry had hoped the bill would give developers the option to convert tax credits into cash “refunds” from the IRS. Except for three types of tax credits, only tax-exempt and government entities will have this option. Instead, tax credits on private projects can be sold to other corporations for cash.

2023

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