

The World of Clean Energy Tax Credits Post-Inflation Reduction Act

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IRA OVERVIEW 01

Inflation Reduction Act of 2022: Highlights

Revenue Raisers (\$700b.):

- 15% alternative minimum tax on C Corporations with book income >\$1b.
- 1% excise tax on stock buybacks

Climate tax expenditures (\$400b.):

- Extension of tax credits for **renewable energy** (wind, solar) and new tech-neutral credits in 2025 (45Y, 48E)
- Section 45Q **carbon capture** tax credit increased
- New clean **hydrogen** production tax credit (section 45V):
- New credits for **renewable fuels**
- New credits for **manufacturing** activity
- New credits for **electric and fuel cell vehicles** and residential and building energy efficiency
- New ways to **monetize** tax credits

Using Tax Policy to Incentivize Climate Change: Stick or Carrot?

Stick:

- Taxation of carbon emissions
- Taxation of use or production of fossil fuels (a "carbon tax")
- The term "carbon pricing" is usually a reference to either a cap-and-trade system or taxation of emissions or fossil-fuel production or both

Carrot:

- Incentives for green activity such as capturing carbon, using or producing renewable fuels or hydrogen.
- Tax incentives might take the following forms:
 - Credits against tax liability
 - Lower rate of tax on income or excise tax
 - Bigger deductions for expenses, faster rates of depreciation.

Background to Inflation Reduction Act

- Congress has historically provided tax incentives for a variety of renewable and clean energy activities.
- Some problems with pre-IRA tax credits:
 - Phased down and out over short time spans, requiring renewal and creating uncertainty;
 - Narrow scope; not all worthwhile activities covered;
 - Too small to make targeted activities profitable
 - Credits usable only by those with tax liability.
- IRA addresses by:
 - Extension until at least 2033 for most credits (phase down/out over 4 years, starting in year when US GHG emissions are less than 25% of emissions in 2022)
 - Covers broader scope of activities
 - Increases amounts
 - Facilitates monetization

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