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

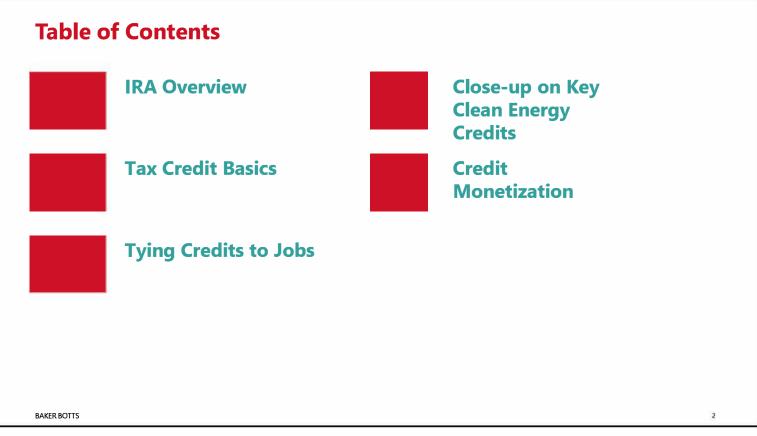
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IRA OVERVIEW 01



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

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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:
 - o Credits against tax liability
 - o Lower rate of tax on income or excise tax
 - o Bigger deductions for expenses, faster rates of depreciation.

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Background to Inflation Reduction Act	
Congress has hist and clean energy	orically provided tax incentives for a variety of renewable activities.
Some problems w	vith pre-IRA tax credits:
 Phased down a uncertainty; 	nd out over short time spans, requiring renewal and creating
 Narrow scope; 	not all worthwhile activities covered;
– Too small to m	ake targeted activities profitable
– Credits usable of	only by those with tax liability.
 IRA addresses by: 	
	at least 2033 for most credits (phase down/out over 4 years, when US GHG emissions are less than 25% of emissions in 2022)
 Covers broader 	scope of activities
– Increases amou	nts
 Facilitates mon 	etization

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