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## Inflation Reduction Act Incentives for Energy Sector

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President Biden signed the Inflation Reduction Act of 2022 (HR 5376) (the Act) into law on August 16, 2022. This update provides a high level overview of the Act's incentives for the energy sector. We have published a separate update regarding the Act's [energy storage incentives](#).

The Act provides \$750 billion for a range of issues, including \$400 billion for energy and climate. The Act—a slimmed down version of the Build Back Better bill—also makes substantial policy changes. It should have an immediate effect on the wind and solar industries, as well as other energy projects. The Act contains numerous tax credits, rebates, and other incentives.

### Renewable Energy

The following incentives are provided (note that the details are particularly important, because the Investment Tax Credit (ITC) and the Production Tax Credit (PTC) have additional strings attached, as well as bonuses, as further described below).

- The ITC is extended for solar, geothermal, biogas, fuel cells, waste energy recovery, combined heat and power, small wind property, and microturbine and microgrid property for projects that begin construction before January 1, 2025.
- The PTC is extended for solar (which expired in 2005 and was not renewed until this Act) and wind, biomass, geothermal, landfill gas, municipal solid waste, qualified hydropower, and marine and hydrokinetic projects that begin construction before January 1, 2025.
- Interconnection costs are now includable in ITC basis.
- Offshore wind and electricity transmission projects are eligible for grants.
- Clean hydrogen projects may be eligible for a production credit up to \$3.00/kg.
- Electric vehicles, hydrogen vehicles, alternative fuel refueling stations, nuclear power, energy efficiency, biofuels, carbon sequestration, and clean hydrogen are eligible for additional tax credits and deductions.
- \$27 billion for green banks and clean technology accelerators.

There are two significant strings attached. First, to receive the ITC or PTC, a project must pay prevailing wages during construction and the initial period of operation (first five years for the ITC, or ten years for the PTC). Second, 10-15% of the project's labor hours must be performed by "qualified apprentices" participating in a registered program under the National Apprenticeship Act. (If either requirement is not satisfied, a project can still qualify for the full ITC or PTC by paying a penalty to the IRS.) Failure to meet these conditions will reduce the tax credit by 80%.

Bonuses are also available:

- For a 10% bonus tax credit for “domestic content,” 40% of a project’s steel, iron, or manufactured components must be produced in the United States (the requirement is lowered to 20% for offshore wind).
- For a 10% “energy community” tax credit, a project must be located within a brownfield site, a Census tract in which a coal mine or coal-fired plant has been retired after 1999, or certain communities dependent on the coal, oil, or natural gas industries.
- For a 10% or 20% “environmental justice” tax credit, a project must be located within a low-income community or on Native American land (10% credit), or a low-income residential building (20% credit).

A project that qualifies for all bonuses could receive a 50% tax credit.

### **Energy Security and Domestic Manufacturing**

The Act includes the Advanced Manufacturing Production Credit, which will be available to companies that manufacture clean energy equipment in the U.S., such as PV cells and wafers, polysilicon, solar modules, wind energy components, battery cells, battery modules, and critical minerals.

The Act provides \$60 billion for domestic manufacturing of clean energy and transportation technologies, including:

- \$30 billion PTC to accelerate production of solar panels, wind turbines, and batteries; and support critical minerals processing.
- \$20 billion in loans to build new clean vehicle manufacturing facilities.
- \$10 billion ITC to build clean technology manufacturing facilities for electric vehicles, wind turbines, solar panels, and more.
- \$2 billion for energy research at national labs.
- \$2 billion in grants to retool existing auto manufacturing for clean vehicles.
- \$500 million in the Defense Production Act for heat pumps and critical minerals processing.

### **Decarbonization**

The Act is expected to reduce emissions in every sector of the U.S. economy. It mandates a Methane Emissions Reduction Program to reduce the leaks from the production and distribution of natural gas. It also provides tax credits and grants for clean fuels and clean commercial vehicles, including a Clean Fuel Production Credit.

Funding is projected to include:

- \$30 billion in grant and loan programs to states and electric utilities for clean electricity.
- \$9 billion for federal procurement of American-made clean technologies (including \$3 billion for the Postal Service to purchase zero-emission vehicles).
- \$27 billion for a technology accelerator to support clean energy technologies to reduce emissions, especially in disadvantaged communities.
- \$6 billion for a new Advanced Industrial Facilities Deployment Program to reduce emissions from industrial emitters such as chemical, steel, and cement plants.

### **Transportation Infrastructure and Community Investment**

The Act is expected to provide over \$60 billion for environmental justice initiatives relevant to companies in multiple industries, including energy and transportation. Funding under the Act includes:

- \$3 billion to reduce air pollution at ports.

- \$3 billion for Environmental and Climate Justice Block Grants.
- \$3 billion for Neighborhood Access and Equity Grants, to support affordable transportation and mitigate the negative effects of transportation infrastructure.
- \$1 billion for clean heavy-duty vehicles.

### **Consumers**

The Act will provide funding to mitigate the high cost of energy, including consumer incentives to buy electric appliances, clean vehicles, residential solar, and home energy efficiency:

- \$9 billion in home energy rebate programs for appliances and energy efficient retrofits.
- \$1 billion grant program for energy efficiency for affordable housing.
- \$7,500 tax credit to buy new clean vehicles (and \$4,000 tax credit for lower/middle income buyers of used clean vehicles).
- 10 years of consumer tax credits for residential energy efficiency measures, such as heat pumps, rooftop solar, and electric HVAC and water heaters.

### **Agriculture and Rural Lands**

The Act also supports agriculture, forest management, and land conservation:

- \$20 billion for the U.S. Department of Agriculture's voluntary land stewardship programs.
- \$14 billion for rural power and clean energy.
- \$6 billion for wildfire protection and forestry.
- \$5 billion to combat drought in western states.

If you have questions regarding financial incentives under the Act, or concerns regarding regulatory changes, please contact Gwenn O'Hara, Nora Sheriff, or Christopher G. Parker, below.



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