Combined Heat and Power Alliance

Inflation Reduction Act of 2022

August 15, 2022

SC Partners

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The SC Partners staff are not attorneys.

Introduction

- PTC and ITC Transition to Tech-Neutral Regime
- Base Rate and Bonus Rate
- Wage and Apprenticeship Requirements
- Bonus Credits for the PTC and ITC
- Direct Pay – Transferability
- New Hydrogen ITC or PTC
- Advanced Energy Manufacturing Tax Credit

PTC and ITC Transition to Tech-Neutral Regime

Extension of Sec. 48 ITC

- Deadline for the sec. 48 ITC to **January 1, 2025.**
- CHP becomes eligible for the maximum ITC
- This applies to property currently eligible for the ITC

Tech Neutral Credits (sec. 45Y, 48E)

- Only zero-emissions facilities placed in service after December 31, 2024, are eligible for the technology-neutral PTC or ITC
- The technology-neutral credits phase out as greenhouse gas emission reduction targets in the electric sector are reached.
- The applicable year means the later of the calendar year in which electric sector greenhouse gas emissions are equal to or less than 25% of 2022 emissions or 2032.

Base and Bonus Rates for ITC

- The base rate for the ITC is 6%.
- The bonus rate for the ITC is 5 times the base rate (30%)
- The base and bonus rates apply to the extensions of the PTC and ITC, the technology neutral credits, and other tax credits in the bill.
- Taxpayers receive the bonus rate for meeting the prevailing wage and apprentice requirements.

Wage and Apprenticeship Requirements

- General Exemptions
  - Projects under 1 MW are exempted
  - Projects beginning construction prior to the date, which is 60 days after IRS guidance on these provisions is released are exempt.

- Prevailing Wage Requirements
  - Taxpayers must ensure project workers are paid at prevailing locality wages.

- Apprentice Requirements
  - Taxpayers must ensure the applicable percentages of labor hours are filled by qualified apprentices:
    - Construction begins before Jan. 1, 2023: 10%
    - Construction begins in 2023: 12.5%
    - Construction begins in 2024 or later: 15%

Bonus Credits for the PTC and ITC

Energy Community Bonus

- Energy communities fall into three categories:
  - A brownfield site
  - An area with above average fossil energy employment with above average unemployment or local tax dependence on fossil energy
  - Within or adjacent to a census tract where a coal mine has closed after 1999, or a coal-fired electric generator closed after 2009

Domestic Content Bonus

- To meet the domestic content requirement the facility must use 100% domestic iron and steel and a specified percentage of domestic manufactured products, which changes by year (see below).
  - 2023: 40%
  - 2024: 40%
  - 2025: 45%
  - 2026: 50%
  - 2027 and later: 55%

Direct Pay and Transferability

- Direct Pay
  - The bill allows direct pay for tax-exempt entities and new technologies.
  - Projects must meet the domestic content bonus credit requirements to get full direct pay (starting with 2024 construction starts) or get waivers.
  - Domestic content requirements be waived only if the use of domestic content raises overall project cost over 25% or sufficient materials (quantity or quality) are not available domestically.
  - The direct pay election is irrevocable.

- Transferability
  - Allows the transfer of eligible credits (or a portion of credits) from one taxpayer (the eligible taxpayer) to another unrelated taxpayer (the transferee taxpayer).

New Hydrogen Production Credit

- The bill creates the sec. 45V tax credit, which allows a per kilogram production credit or investment tax credit for hydrogen production facilities.
- This is a credit for hydrogen production—not facilities using hydrogen.

Lifecycle GHG Emissions Range	Base Amount*	Applicable Percentage	Base Credit per kg H2	Bonus Credit per kg H2	Base ITC Percentage	Bonus ITC Percentage
2.5 - 4 kg CO2e per kg Hydrogen	$ 0.6	20.0%	$ 0.12	$ 0.6	1.2%	6.0%
1.5 - 2.5 kg CO2e per kg Hydrogen	$ 0.6	25.0%	$ 0.15	$ 0.8	1.5%	7.5%
0.45 - 1.5 kg CO2e per kg Hydrogen	$ 0.6	33.4%	$ 0.20	$ 1.0	2.0%	10.0%
less than 0.45 kg CO2e per kg Hydrogen	$ 0.6	100.0%	$ 0.60	$ 3.0	6.0%	30.0%
* Subject to inflation adjustment						

Advanced Energy Manufacturing Tax Credits (sec. 13501)

- Allocates $10 billion to the sec. 48C advanced manufacturing ITC
- No greater than $6 billion may be allocated to investments in "energy communities" as defined in sec. 45.
- The base rate of 6% and bonus rate of 30% based on meeting the labor requirements applies.
- The tax credit can be used for the manufacture of energy conservation technology, electrolyzers, and industrial retrofit projects to reduce a facility's greenhouse gas emissions.
- Because the credit is allocated specific amounts, taxpayers must apply for this credit.

Q&A

Thank you for attending this session!