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Monetizing Clean Energy Tax Credits from the Inflation Reduction Act

September 24, 2024



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The Inflation Reduction Act



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IRA Snapshot

Creates and modifies a number of renewable energy credits as well as financing programs

Creates new monetization options for tax-exempt and taxable entities

Section 6417 provides an elective pay option (i.e., cash refund) for:

- Tax-exempt organizations
- State and local governments
- Tribal governments
- Rural electric cooperatives

Section 6418 provides a transferability option for for-profit organizations

- Taxpayers can buy and sell credits for cash

IRS portal launched in Dec. 2023 → registration is live

Treasury and IRS continue to issue guidance to implement the IRA



Opportunities for State and Local Governments (SLGs)



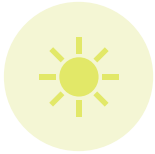
New building construction and renovations



Fleet electrification and charging infrastructure



HVAC improvements



Solar panel installations



Pricing leverage for Section 179D allocations



Capital project forecasting

Refundable/Transferable Credits

§30C Alternative fuel vehicle refueling property credit

§45 Electricity produced from certain renewable resources, etc.

§45Q Credit for carbon oxide sequestration

§45U Zero-emission nuclear power production credit

§45V Credit for production of clean hydrogen

§45W Credit for qualified commercial clean vehicles (elective pay only)

§45X Advanced manufacturing production credit

§45Y Clean electricity production credit

§45Z Clean fuel production credit

§48 Energy credit

§48C Advanced energy project credit

§48E Clean electricity investment credit



Know Your Dates

- IRA is generally effective Jan. 1, 2023
- Credits may be claimed once property is placed in service
- Construction start date is important under the IRA
 - Construction generally starts when:
 - 5% or more of the cost of the property is incurred, or
 - Physical work of a significant nature begins
- Fiscal year end will determine period in which property is placed in service and tax return due dates (discussed later)



IRA in Connecticut

- CT House Bill 5524 - Public Act 24-151- Enacted 2024
 - Starting July 2025, Solar Feasibility Studies must be completed as part of the application for any School Construction Project. Municipalities could see significant reductions in reimbursement rates if not performed.
 - Public Utilities Regulatory Authority (PURA) is currently developing a program to provide additional incentives to municipalities that install solar grids.
 - We also anticipate mandatory solar feasibility studies being a topic for debate by the General Assembly during the 2025 session.





Specific Credit Opportunities



Section 48 Investment Tax Credit (ITC)

Tax credit based on a percentage of the cost of qualified property

6% base credit

30% base credit if:

- Prevailing wage and apprenticeship (PWA) is met,
- Construction started prior to Jan. 29, 2023, or
- System is less than 1 megawatt (does not apply to all ITC property)



Examples of ITC Eligible Property

Solar (rooftop,
car port, ground-
mounted)

Geothermal
HVAC

Wind

Biogas

Battery energy
storage systems

Combined heat
and power
systems

Electrochromic
glass



Section 45 Production Credit

Per kWh credit for production of electricity from renewable sources

Rates vary depending upon energy source

Prevailing wage and other bonus credits available

Applies to:

- Solar
- Wind
- Municipal solid waste
- Geothermal
- Biomass
- Hydroelectric



Section 30C Alternative Fuel Refueling Credit

- 6% of the cost of any single item of qualified property not meeting PWA, up to \$100,000
- 30% of the cost of qualified property if PWA is met, up to \$100,000
- Qualified property must be installed in locations that meet the following census tract requirements:
 - The census tract is not an urban area
 - A population census tract where the poverty rate is at least 20%; or
 - Metropolitan and non-metropolitan area census tract where the median family income is does not exceed 80% of the state median family income level



Section 45W Clean Vehicle Credit



Applies to clean commercial vehicles and mobile machinery acquired or leased after 2022 and before 2033



Credit equals the lesser of:

- 15% of the vehicle's basis (30% if fully electric) or
- Incremental cost of the vehicle



Max credit is:

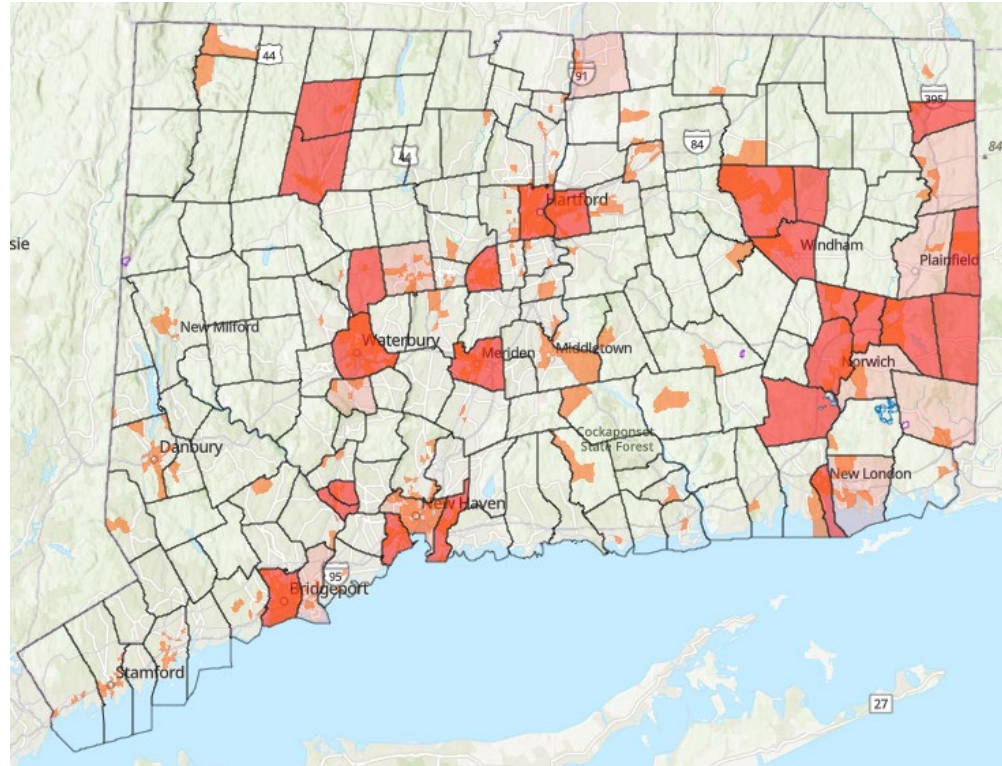
- \$7,500 for vehicles less than 14,000 GVWR, and
- \$40,000 for all others

CT Senate Bill 4 - Public Act 22-25 – Enacted 2022

- Zero-emission School Buses
 - Year 2030 – 100% zero-emissions in Environmental Justice Communities
 - Year 2035 – All school buses must be zero-emission or alternative fuels (natural gas, propane, hydrogen, biofuels)
 - Year 2040 – All school buses state-wide must be zero-emissions.
- The act also requires DEEP to establish and administer a grant program to provide matching funds necessary for municipalities to purchase zero-emission school buses and necessary charging infrastructure.



Environmental Justice Communities



Source: <https://ctdeep.maps.arcgis.com/apps/webappviewer/index.html?id=d04ec429d0a4477b9526689dc7809ffe>





Bonus Credits



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Prevailing Wage And Apprenticeship (PWA)

- Increases base credit by 5X (from 6% to 30%) – if project meets 1-MW or construction date exceptions, PWA is not needed
- Requires that all laborers and mechanics employed on an energy construction project are paid at least the prevailing wage rates for the type of work performed in the geographic area of the facility as determined by the Department of Labor in accordance with the Davis-Bacon Act
- Must maintain strict recordkeeping of each laborer or mechanic's hourly rates, hours worked, deductions from wages, and actual wages paid, among other records



Prevailing Wage And Apprenticeship (PWA) Cont'd

- A taxpayer and its contractors and subcontractors who employ four or more workers on an energy construction project (including repair work) must hire at least one qualified apprentice
- For construction beginning in 2023, at least 12.5% of the total labor hours on a construction project (including repair work) must be performed by a qualified apprentice from a registered apprenticeship program
 - This percentage increases to 15% for projects beginning in 2024 or after
- Good faith exception for apprenticeship requirements if qualified apprentices have been requested from a registered apprenticeship program and either (i) the request was denied for reasons other than the taxpayer, contractor, or subcontractor's refusal to comply with the program's standards and requirements, or (ii) the program failed to respond within five business days of receiving a request



Domestic Content Bonus

- Projects are eligible for an additional bonus credit of 10% (2% if 5X multiplier not met) if the following conditions are met:
 - 100% of any steel or iron that is a component of the facility is manufactured in the United States
 - Not less than the applicable percentage of the manufactured components of the facility are manufactured in the United States:
 - 40% in 2024
 - 45% in 2025
 - 50% in 2026
 - 55% in 2027

100% of steel and iron

Applicable percentage of
manufactured products



Domestic Content Cont'd

- Credits are reduced beginning in 2024 if DC isn't met (unless 1-MW exception applies)
 - 90% of base amount in 2024
 - 85% of base amount in 2025, and
 - 0% for projects that begin construction after Dec. 31, 2025
- Notice 2024-41 provides elective safe harbor for solar, land-based wind, and battery energy storage systems.
 - Uses assigned cost percentages for applicable projects
 - If elected, must use in its entirety for that project
- In practice, DC has been contentious
 - Manufacturers are reluctant to hand over cost data
 - Safe harbor should simplify things to some extent

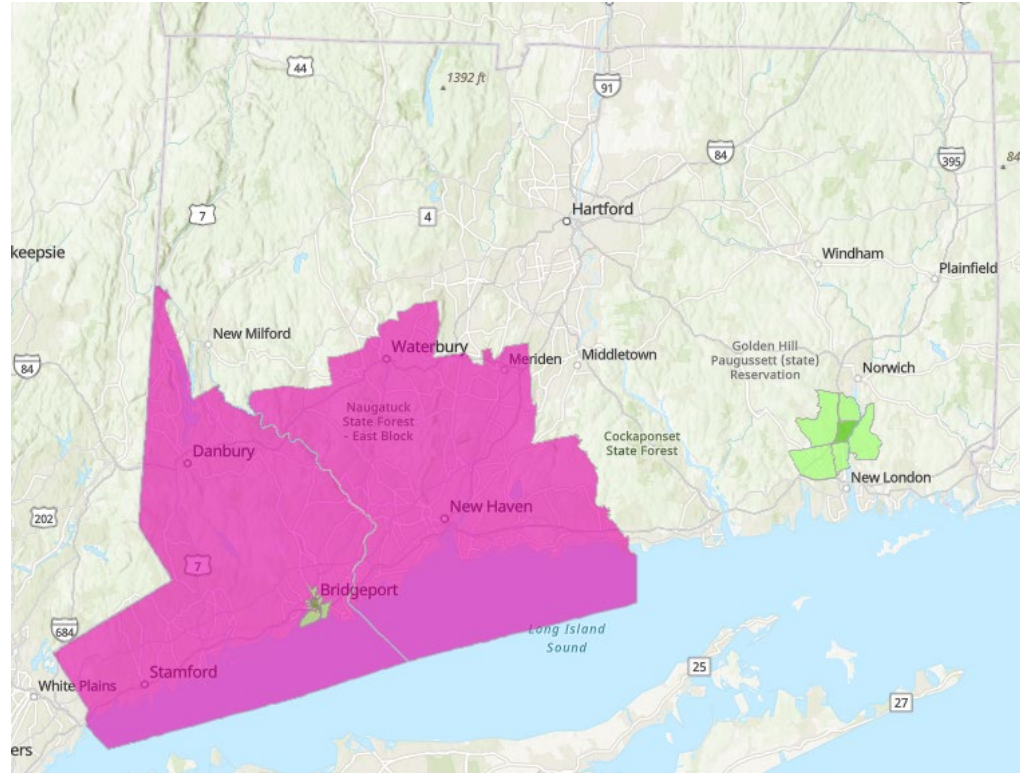


Energy Communities

- Projects are eligible for an additional bonus credit of 10% (2% if 5X multiplier not met) if the facility is located in any of the following:
 - A brownfield site
 - An area that:
 - Has (or, at any time during the period beginning after December 31, 2009, had) 0.17% or greater direct employment or 25% or greater local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas, or
 - Has an unemployment rate above the national average for the previous year, or
 - Has a census tract or a census tract that is adjoining a census tract in which a coal mine has closed after 1999 or a coal-fired electric generating unit was retired after 2009



CT Energy Communities



Source: <https://arcgis.netl.doe.gov/portal/apps/experiencebuilder/experience/?id=a2ce47d4721a477a8701bd0e08495e1d>



Low-Income Communities

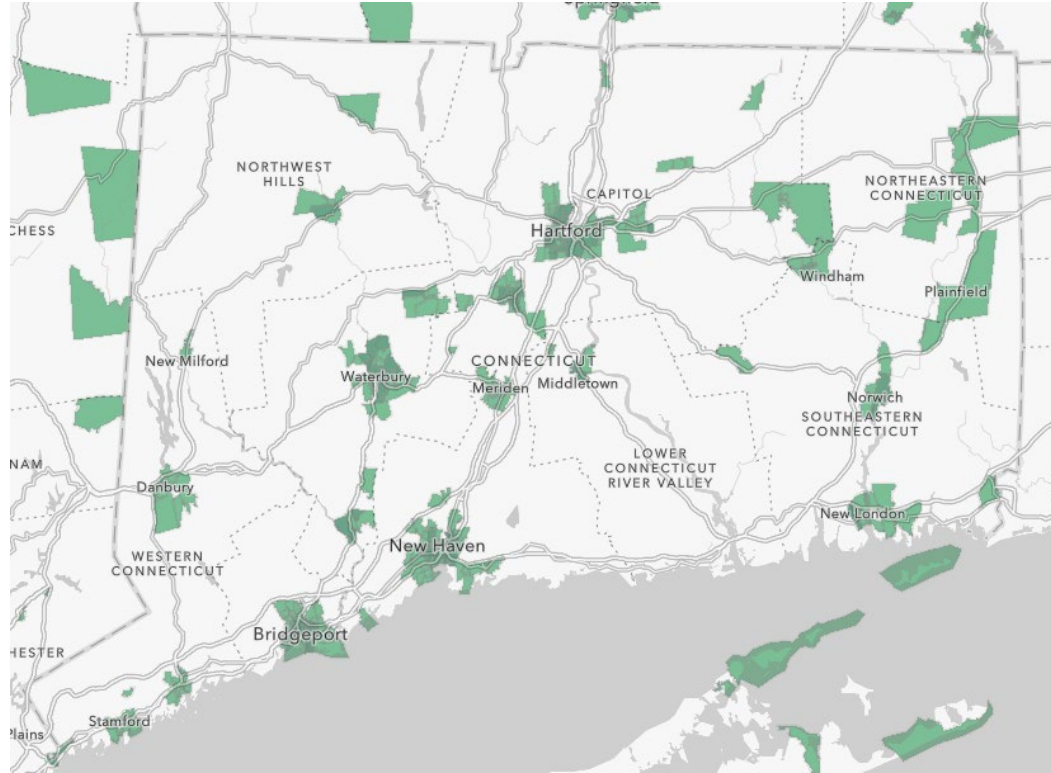


Project is built in a low-income community as defined by the New Markets Tax Credit or on Indian Land can receive an increased tax credit of 10%



Project associated with a low-income residential building project, or a low-income economic benefit project, can receive an increased tax credit of 20%

CT Low-Income Communities



Source: <https://experience.arcgis.com/experience/12227d891a4d471497ac13f60fffd822/page/Page/>



Credit Rate Tables

Category	Amount* for Projects less than 1MW _{AC} (Cumulative)	Amount* for Projects greater than 1MW _{AC} (Cumulative)
Base Tax Credit	ITC: 30% PTC: 2.75¢/kWh	ITC: 6% PTC: 0.5¢/kWh
Wage & Apprenticeship Requirements (Requires a percentage of total labor hours performed by qualified apprentices)	ITC: N/A PTC: N/A	ITC: +24% PTC: +2.25¢/kWh

www.epa.gov/green-power-markets/summary-inflation-reduction-act-provisions-related-renewable-energy



Credit Rate Tables Cont'd

Category	Amount* for Projects less than 1MW _{AC} (Cumulative)	Amount* for Projects greater than 1MW _{AC} (Cumulative)
Domestic Content Minimums (% attributable to U.S. Manufactured Products)	ITC: +10% PTC: +0.3¢/kWh	ITC: +10% PTC: +0.3¢/kWh
Siting in Energy Community ex. Brownfield site, area related to mining operations)	ITC: +10% PTC: +0.3¢/kWh	ITC: +10% PTC: +0.3¢/kWh
Siting in Low-Income Community or on Indian Land (<5 MW _{AC})	ITC: +10% PTC: N/A	ITC: +10% PTC: N/A
Qualified Low-Income Residential Building Project or Economic Benefit Project	ITC: +20% PTC: N/A	ITC: +20% PTC: N/A

www.epa.gov/green-power-markets/summary-inflation-reduction-act-provisions-related-renewable-energy





Grants and Tax-Exempt Bonds



Grant Funding

- Grant funding **may** reduce otherwise allowable credits
- Excess benefit rule
 - If a grant, forgivable loan, or other exempt income is received for the specific purpose of purchasing or constructing ITC property, and the sum of such amounts plus the applicable credit otherwise determined with respect to that property exceeds the cost of the property, then the amount of the applicable credit is reduced so that the total amount of applicable credit plus the amount of any restricted tax-exempt amounts equals the cost of investment-related credit property



Grant Funding Cont'd

- The determination of whether a tax-exempt grant is made for the specific purpose of purchasing, constructing, reconstructing, erecting, or otherwise acquiring ITC property is made at the time the grant is awarded to the applicable entity
- A tax-exempt grant awarded after the property is purchased, constructed, etc. is generally not a restricted tax-exempt amount unless approval of the grant was perfunctory and the amount of the grant was virtually assured at the time of application
- Examples of tax-exempt amounts that are not restricted tax-exempt amounts are:
 - A tax-exempt amount from the organization's general funds is not a restricted tax-exempt amount, and
 - A tax-exempt amount's use that is not restricted to the purpose of purchasing, constructing, reconstructing, erecting, or otherwise acquiring ITC property (such as purchasing an electric vehicle) and could be used for any of several different applicable credit properties (such as purchasing an electric vehicle or purchasing solar panels) or can be put to other purposes (such as purchasing an electric vehicle or making a building more energy efficient)



CT School Construction Grant Program

- Confirmed with the Department of Administrative Services that the receipt of Federal IRA credits will **NOT** have a negative impact on State School Construction reimbursement rates.
- All IRA eligible construction will still be included as eligible project costs under the State Program.
 - Not all surrounding states have taken the same stance.



Tax-Exempt Bonds

- ITC property acquired using proceeds from a tax-exempt bond issuance must be reduced by the lesser of:
 - 15% of the pre-reduction ITC, or
 - The product of the pre-reduction ITC and a fraction
 - The numerator of which is the amount of current and all prior taxable years' tax-exempt bond proceeds used to finance the ITC energy property, and
 - The denominator of which is the aggregate amount of the additions to the capital account for the ITC property for the current taxable year and all prior taxable years
- Tax-exempt bond credit reduction rule applies before the application of Section 6417
- Thus, any tax credit reduction that is required for tax-exempt grants and forgivable loans under the Section 6417 excess benefit rule is computed after application of the tax-exempt bond issuance credit reduction rule discussed above





Credit Monetization



Claiming Direct Payments

Pre-filing registration

- Must be completed prior to filing the tax return where a direct pay election is made
- IRS is advising a minimum of 120 days to process registrations
- Must provide certain information about organization, the credits you intend to claim, and details regarding the property giving rise to the credit
- A registration number will be issued that will be required when making the election on tax return
- IRS will issue a separate registration number for each applicable credit property

Making the election on a tax return

- Must be made on a timely filed return (including extensions) → cannot be made on an amended return
- Must be filed on Form 990-T by due date along with:
 - Form 3800 (General Business Credit)
 - Applicable credit form and registration info from above
 - State and local governments that do not file a tax return will need to file a Form 990-T for this limited purpose – can elect calendar tax year under final regulations



Thank you!

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