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2022 INFLATION REDUCTION ACT

Summary

The most valued portion of the Inflation Reduction Act for commercial and industrial solar projects is the business Investment Tax Credit (ITC).

The IRA has increased the credit amount to 30% and extended it until 2032 or when energy sector emissions reach 25% of 2022 levels, whichever comes first. At that point, the tax credit will phase down over multiple years.

The ITC becomes technology netural, opening it up to a wider variety of clean energy technologies including battery storage, and is now eligible to be transferred and received as a direct payment for certain entities.

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The table below shows a summary of the ITC and potential bonus adders if a project meets certain requirements.

The bonuses are stackable – meaning if the project meets multiple requirements, you can claim multiple bonuses. This brings the total maximum credit potential to 70% plus approximate 15%-20% credits for depreciation.

			Start of Construction						
			2006 to 2019	2020 to 2021	2022	2023 to 2033	The later of 2034 (or two years after applicable year[a])	The later of 2035 (or three years after applicable year[a])	The later of 2036 (or four years after applicable year[a])
ITC	**Full rate** (if project meets labor requirements[b])	Base Credit	30%	26%	30%	30%	22.5%	15%	0%
		Domestic Content Bonus				10%	7.5%	5%	0%
		Energy Community Bonus				10%	7.5%	5%	0%
	Base rate (if project does not meet labor requirements[b])	Base Credit	30%	26%	6%	6%	4.5%	3%	0%
		Domestic Content Bonus				2%	1.5%	1%	0%
		Energy Community Bonus				2%	1.5%	1%	0%
	Low-income bonus (1.8 GW/yr cap)	<5 MW projects in LMI communities or Indian land				10%	10%	10%	10%
		Qualified low-income residential building project / Qualified low-income economic benefit project				20%	20%	20%	20%

Transferability & Direct Pay

- The IRA's new Credit Transfer and Elective Pay features enable more customers, including non-taxed entities and businesses with low tax liabilities, to benefit from clean energy tax credits. Both features require pre-filing online registration, which provides a registration number needed for claiming the credit on tax returns.

Credit Transfer (referred to as transferability):

Allows entities that qualify for a tax credit but are not eligible to use elective pay to transfer all or a portion of the credit to a third-party buyer in exchange for cash. The buyer and seller would negotiate and agree to the terms and pricing.

- If you are eligible for elective pay, you are **not** eligible for credit transfer.
- Cannot transfer credit related solely to a bonus credit. For example, the portion of an eligible tax credit related to the Domestic Context Bonus cannot be transferred separately from the rest of the eligible tax credit.
- Can transfer credit generated by a single property to multiple unrelated parties. In this case, you only need one registration number for the property – simply give the same number to each party receiving transfer.
- Both parties must complete a transfer election statement and submit it with their respective tax return(s).

Elective Pay (referred to as direct pay):

Entities that do not pay federal income taxes are eligible to receive the credit amount as tax refund. Elective pay treats the tax credit as a payment of federal income tax and since the entity does not owe any federal income tax, it is considered an overpayment and is refunded.

- Eligible entities:
    - Tax exempt organizations – public charities, private foundations, social welfare organizations, labor organizations, religious or apostolic organization

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