

Inflation Reduction Act

Incentives for Investment in Energy Efficiencies and Emerging Technologies

PRESENTED BY

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2023

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Poll Question #1

Do you intend to make an investment in the energy efficiency space in the next two years?

- A. Yes
- B. No
- C. Maybe

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IRA Energy Credit Hot Topics

Exploring commonalities

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Increased Credit Rates Tied to New Qualifications

- Highest credit rates tied to meeting one or all of:
 - › Paying prevailing wages
 - › Use of apprenticeship programs
 - › Use of domestic content
 - › Developing in specified communities
- Generally, meeting all requirements will result in a credit 5x higher
 - › Could be a greater difference in certain instances
- Penalties for claiming credits at higher rates without qualifying



Prevailing Wages

- Amount/Rate is set by the Secretary of Labor
 - › See www.sam.gov for rates
 - › Specific labor classifications and geographic areas must be identified
- Prevailing wages must be paid to laborers and mechanics
 - › Includes those employed by the taxpayer, as well as by contractors or subcontractors engaged by the taxpayer
 - › Applies to any work associated with the construction, alteration or repair of a qualified facility
- Recordkeeping requirement falls on taxpayer
 - › Including work performed by contractors and subcontractors



Apprenticeship Programs

- Requires an applicable percentage of total labor hours to be performed by qualified apprentices
 - › Total labor hours includes construction, alteration or repair work
 - › Includes work performed by contractors or subcontractors
- Applicable percentages are:
 - › Before January 1, 2023: 10%
 - › After December 31, 2022 and before January 1, 2024: 12.5%
 - › After December 31, 2023: 15%
- Similar recordkeeping requirements of prevailing wage qualifications
- Select exceptions are available



Domestic Content

- Requires that 40% of the steel, iron or manufactured product used a component of an applicable facility or project are produced in the U.S.
 - › Produced in the U.S. includes products and components that are mined, produced or manufactured in the U.S.
 - › Offshore wind facilities offer reduced rate of 20%
- Requirement can be waived if:
 - › Using U.S. produced content would increase the overall costs of the construction by more than 25%, or
 - › If the relevant content is not produced in the U.S. in sufficient and available quantities, or
 - › U.S. sourced content is not of satisfactory quality



Developing in Specified Communities

- Credit enhancement for energy communities
 - › Certain brownfield sites
 - › A census tract or adjacent tract in which a coal mine closed after 1999 or a coal-fired electric generating unit has been retired after 2009
 - › A statistical area that:
 - At any point after 2009 had at least 0.17% direct employment or 25% local tax revenues tied to coal, oil or natural gas industries; and
 - Had an unemployment rate at or above national average for the previous year
- Enhanced credit availability for low-income communities



Direct Pay and Transferability

- Both Section 6417 & Section 6418 only apply to designated credits
- Section 6417 allows certain investors to elect to receive a direct payment of energy credit tax benefits
 - › Qualified investors include any organizations exempt from income tax, as well as select state and governmental authorities
 - › 45V, 45Q, and 45X credits provide exceptions to qualified investor requirements, but apply separate restrictions
- Section 6418 provides a one-time transfer of tax credits between taxpayers for those not eligible for Section 6417
 - › Payments are required to be paid in cash, are not considered gross income for the transferor or a deduction to the transferee

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Poll Question #2

What is your biggest concern about the apprenticeship and prevailing wage requirements?

- A. Rising labor costs
- B. Documentation required to verify compliance with apprenticeship/prevaling wage requirements
- C. Availability of qualified apprentices
- D. Reliance on contractors and subcontractors to comply with requirements



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Section 45L New Energy Efficient Home Credit



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About the Credit

- Not a new credit, but enhanced incentives starting in 2023
- Tax credit for residential homes meeting certain energy efficiency requirements
 - › Credit is based on a per dwelling basis
- What's new:
 - › New credit available for Zero Energy Ready Homes
 - › Increased credit for Energy Star homes by \$500 to \$2,500
 - › Added Prevailing Wage Requirements
 - › Removed restriction for building structure being three stories or less



Requirements

- Home must be:
 - › Constructed by an eligible contractor,
 - › And acquired or rented by a person for use as a home residence.
- Home meets Energy Star or Zero Energy Ready Home requirements
 - › Energy Star generally requires homes to be at least a specific percentage more energy efficient than a baseline home
 - › Zero Energy Ready Homes is a new program that requires a home to be of such a high-performance level that a renewable energy system could offset most or all of the home's annual energy use



Tax Credit Amounts

- Single-Family Home:
 - › Energy Star = \$2,500
 - › Zero Energy Ready = \$5,000
- Multi-Family
 - › Energy Star = \$500
 - › Zero Energy Ready = \$1,000
 - › Adders:
 - Energy Star + Prevailing Wage = \$2,500
 - Zero Energy Ready + Prevailing Wage = \$5,000



Section 179D Energy Efficient Commercial Buildings Deduction



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About the Deduction

- Not a new deduction, but enhanced incentives starting in 2023
- Tax deduction for energy efficient commercial property improvements
- What's new:
 - › Reduced energy efficiency threshold to 25% from 50%
 - › Maximum deduction is \$5.36/sq. ft. (was \$1.88/sq. ft. in 2022)
 - › Partial deduction limitation removed for types of improvements
 - › Lifetime limitation removed and is now limited to the amount of deductions taken over a four-year span (current year and prior three years)
 - › Added prevailing wage and apprenticeship requirements for the maximum deduction per square foot

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Requirements

- Improvements must reduce annual energy and power costs by 25%
- Types of improvements
 - › Interior lighting systems
 - › HVAC and hot water systems
 - › Building envelope



Tax Deduction Amounts

- Base deduction:
 - › 25% energy efficiency = \$0.54/sq. ft.
 - › Additional \$0.02/sq. ft. for each additional percentage point above 25% up to a maximum of \$1.07/sq. ft. for energy efficiency of 50% or more
- Adders:
 - › Prevailing Wage and Apprenticeship:
 - 25% energy efficiency = \$2.68/sq. ft.
 - Additional \$0.11/sq. ft. for each additional percentage point above 25% up to a maximum of \$5.36/sq. ft. for energy efficiency of 50% or more



Section 48 Investment Tax Credit



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About the Credit

- Not a new credit, but enhanced incentives starting in 2022 for facilities placed in service after 2021 and for which construction begins before 2025
- Tax credit that is based on cash investment into various types of qualified energy property used to generate renewable energy
- What's new:
 - › Multi-tier credit system if you meet the following requirements:
 - Prevailing wages and apprenticeship
 - Domestic content
 - Located in an energy community (low-income/Indian land)
 - › Credit recapture rules now apply to not meeting prevailing wages and apprenticeship as well



Requirements

- Qualified energy property used to generate renewable energy
 - › Energy property includes items such as:
 - Solar, geothermal, qualified fuel cell property or qualified microturbine property, combined heat and power system property, qualified small wind energy property, waste energy recovery property, energy storage technology, qualified biogas property, or microgrid controllers
 - › The construction, reconstruction or erection of which is:
 - Completed by the taxpayer, or
 - Acquired by the taxpayer if the original use of such property commences with the taxpayer
 - › With respect to which depreciation (or amortization) is allowable, and
 - › Which meets certain performance and quality standards



Tax Credit Amounts

- Base Credit = 6%
- Adders:
 - › Prevailing wages and apprenticeship = 24% increase or 5x multiplier (30%)
 - › Domestic content = 10%
 - › Energy community = 10%
- Maximum Credit = 50%



Section 45 Production Tax Credit



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About the Credit

- Not a new credit, but enhanced incentives starting in 2022 for facilities placed in service after 2021 and for which construction begins before 2025
- Tax credit based on production of electricity in the U.S. from qualified energy resources at a qualified facility generally over a 10-year period beginning on the date the facility is originally placed in service
- The energy must be sold to an unrelated person during the taxable year
- What's new:
 - › Multi-tier credit system if you meet the following requirements:
 - Prevailing wages and apprenticeship
 - Domestic content
 - Located in an energy community (low-income/Indian land)



Requirements

- Qualified energy resources includes:
 - › Wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy
- Qualified facilities include:
 - › Wind facilities, closed-loop biomass facilities, open-loop biomass facilities, geothermal or solar energy facilities, small irrigation power facilities, landfill gas facilities, trash facilities, refined coal production facilities, qualified hydropower facilities, Indian coal production facilities, and marine and hydrokinetic renewable energy facilities
 - Maximum net output of less than 1 megawatt, or
 - A facility that began construction prior to January 29, 2023, or
 - A facility that satisfies the prevailing wage and apprenticeship requirements.



Tax Credit Amounts

- Base Credit = 0.55 cents per kWh
- Adders:
 - › Prevailing wages and apprenticeship = 24% increase or 5x multiplier (2.75 cents per kWh)
 - › Domestic content = 0.275 cents per kWh
 - › Energy community = 0.275 cents per kWh
- Maximum Credit = 3.30 cents per kWh



Other Tax Credits

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Other Tax Credits to Consider

- 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
- 45X Advanced Manufacturing Production Credit
- 45Y Clean Electricity Production Credit
- 45Z Clean Fuel Production Credit



Poll Question #3

What incentive is most impactful to you or your business?

- A. Renewable energy credits for production of electricity
- B. Energy Efficient Commercial Business Deduction for building owners
- C. Advanced Energy Project Credit for manufacturers
- D. Credits available for personal purchases, such as electric cars and home energy improvements

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Section 48C Qualified Advanced Energy Project Credit



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Program Overview

- Offers \$10 billion in tax credits for qualified investments in new, expanded or re-equipped manufacturing facilities that produce certain emission reducing technologies.
- Base credit of 6% of qualifying investment with bonus credit of 30%
- Credits are eligible for direct pay and credit transfer
- Emphasis on projects in certain energy communities
- Concept paper deadline for the first round of credits was July 31, 2023
- Round 2 is expected to open in 2024



Qualifying Advanced Energy Projects

- Clean energy manufacturing and recycling projects include facilities that produce one or more specified advanced energy properties or its components or materials and facilities that recycle one or more specified advanced energy properties
- Greenhouse gas reduction projects at existing industrial or manufacturing facilities that reduce emissions by at least 20%. Facilities are not required to produce products with energy applications.
- Critical materials projects for the processing, refining or recycling of materials



Mechanics of the Credit

- Base credit of 6% of qualifying investment once property is placed in service. Must be placed in service within two years of award or award will be forfeited
- Bonus credit of 30% if prevailing wage and apprenticeship requirements are met
- Direct pay is available for tax-exempt entities
- Transfer of credits is available for non tax-exempt entities
- Transferred credits can be considered when calculating estimated tax payments



Energy Communities

- \$4 billion in tax credits set aside for projects located in certain energy communities
- Must satisfy nameplate test or footprint test
- Includes brownfield sites, former coal communities and areas with a specific mix of employment and local tax revenue related to fossil fuels
- DOE has provided a detailed map to help identify eligible areas



Concept Paper & Application Guidelines

- We anticipate Round 2 guidelines to be similar to Round 1, which had a deadline of July 31, 2023. Round 2 expected to open sometime in 2024
- IRS will notify applicants of final allocation decisions for Round 1 no later than March 31, 2024
- Technical review process performed by DOE to address commercial viability, greenhouse gas emissions impact, strengthening of US supply chain, and workforce and community engagement
- There are Round 1 priority areas based on current and anticipated supply chain gaps. These will also apply to future rounds.
- Notice 2023-44 provides extreme detail for each aspect of the application and includes specific content that applicants must provide in the application files and corresponding appendices.
- Concept paper templates and additional resources available at <https://48c-exchange.energy.gov/>



Poll Question #4

Do you expect the Inflation Reduction Act of 2022 to have an impact on your business?

- A. Yes
- B. No
- C. Maybe

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Individual Tax Credits

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Individual Tax Credits

- Clean Vehicles Credits
 - › New vehicles purchased in 2023 or after
 - › Used vehicles
 - › New vehicles purchased in 2022 or before
- Home Energy Credits
 - › Energy efficient home improvement credit
 - › Residential clean energy credit
- Alternative Fuel Vehicle Refueling Property Credit



Clean Vehicle Tax Credits – New Vehicles

- Qualifying new vehicles purchased in 2023 or after
 - › Purchased January 1-April 17, 2023: base credit of \$2,500 and not to exceed \$7,500
 - › Purchased after April 17, 2023: \$3,750 base credit and not to exceed \$7,500
- Qualified vehicles must have battery capacity of at least 7 kw hours, have GVW of less than 14,000 pounds, be made by qualified manufacturer, undergo final assembly in the U.S.
- For qualified vehicles purchased after April 17th, must meet critical mineral and battery component requirements
- Purchase price cannot exceed \$80,000 for vans, SUVs and pickup trucks and \$55,000 for all other vehicles
- AGI cannot exceed \$300,000 MFJ/\$225,000 HOH/\$150,000 all others



Clean Vehicle Tax Credits – Used Vehicles

- Beginning January 1, 2023, if you purchase a qualified used electric vehicle or fuel cell vehicle from a licensed dealer for \$25,000 or less, you may be eligible for tax credit.
- Credit is 30% of sales price with a maximum credit of \$4,000
- To qualify, you must purchase for personal use, not be the original owner, not be claimed as dependent on another person's tax return and not claimed the credit in previous three years.
- The vehicle must be at least a two-year-old model, have GVW less than 14,000 pounds, be an eligible FCV or plug in EV with battery capacity of at least 7 kw hours and be used primarily in the United States.
- AGI cannot exceed \$150,000 MFJ/\$112,500 HOH/\$75,000 all others

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Clean Vehicle Tax Credits – New Vehicles 2022

- Qualifying new vehicles purchased in 2022
 - › Base credit of \$2,917 with bonus for kWh capacity, not to exceed \$7,500
 - › Vehicle must be purchased for personal use, primarily in the U.S.
 - › Vehicle must have external charging source, GVW less than 14,000 pounds and be made by a manufacturer that has not sold more than 200,000 EVs in the U.S.
 - › For example, 2022 purchase of Teslas are not eligible
 - › Any vehicle purchased after August 16, 2022 must undergo final assembly in the United States



Energy Efficient Home Improvement Credit

- Credit available for certain qualified home improvements, including
 - › Exterior doors, windows, skylights and insulation materials
 - › Central air conditioners, water heaters, furnaces, boilers and heat pumps
 - › Biomass stoves and boilers
 - › Home energy audits
- 30% credit on total improvement expenses in year of installation. Cannot exceed \$1,200 (\$2,000 for biomass) and there is no lifetime limit.
- Prior to 2023, credit was capped at \$500 for lifetime.



Residential Clean Energy Credit

- Credit available for certain qualified home improvements, including
 - › Solar, wind and geothermal power generation
 - › Solar water heaters
 - › Fuel cells
 - › Battery storage
- Credit as follows, on total improvement expenses in year of installation:
 - › 2022-2032: 30%
 - › 2033: 26%
 - › 2034: 22%
 - › There is no annual maximum or lifetime limit



Alternative Fuel Vehicle Refueling Property Credit

- Existing credit that has been extended 11 years, applies to any property placed in service before January 1, 2033
- Property must be used to store or dispense clean burning fuel or recharge an electric vehicle
- Credit is 6% for depreciable property and limited to \$100,000 for any single item. Businesses meeting prevailing wage and apprenticeship requirements may be eligible for 30% credit.
- Must be placed in service in an eligible census tract



Thank you!

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and join our [mailing list](#) for regular updates.

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