



Overview of Tax Credits After the Inflation Reduction Act of 2022

FIASI's Sustainable Finance in Fixed Income- Risks and Opportunities in 2023

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Post-IRA Tax Credit Rates

Investment tax credit (ITC) rate is 30% & production tax credit (PTC) rate is \$27.50/MWh for:

- Projects that start construction before January 29, 2023;
- Projects that satisfy the wage and apprenticeship rules; or
- Projects that are less than 1 MW (a/c).

Rates are in effect until later of (i) 2032 & (ii) US energy generation emissions are 25% of 2022 levels

ITC and PTC levels may be increased by domestic content, energy community and LMI bonuses, see '*Credit Adders*' slide.

Credit Adders

Domestic Content – ITC 10 percentage points or PTC 10% bonus

- Must include 100% domestic iron and steel and 40% domestic content for manufactured products (increases after 2024).

Energy Communities – ITC 10 percentage points or PTC 10% bonus

- Brownfield sites (as identified in CERCLA);
- An area which has (or at any time after December 31, 1999, had) (i) (a) significant employment ($\geq 17\%$) related to the extraction, processing, transport, or storage of coal, oil, or natural gas (as determined by the Secretary) or (b) 25% or greater local tax revenue from the foregoing activities, and (ii) higher unemployment than the national average for the “previous year”; or
- A census tract in which (I) after December 31, 1999, a coal mine has closed, or after December 31, 2009, a coal-fired electric generating unit has been retired, or (II) which is directly adjoining to any census tract described in subclause (I).

Environmental justice credit (LMI) – 10 or 20 ITC percentage points bonus (no PTC adder)

- Only applies to solar & wind projects <5 MW of capacity. Must be awarded an allocation by IRS.
- IRS will start accepting applications in 3Q 2023. IRS saying can't be in service before allocation granted.
- Key concept of “benefiting” low-income communities and residents remains to be defined by IRS.

“Transferability” of Tax Credits

Transferability – selling tax credits to unrelated parties for cash

- Seeing term sheets to buy tax credits in lower 90 cents for \$1.00 of tax credit.
- Only one sale allowed, no brokers acting as buyers to re-sell.
- Can be sold after close of tax year but before buyer files its tax return.
- No taxable income to seller; no deduction for buyer.
- Sale election is made at “partnership” level, not partner level.



Direct Pay for Tax Credits

Direct Pay

- Available for all owners claiming the manufacturers' tax credits (45X and 48C), hydrogen tax credits (45V), or carbon capture tax credits (45Q).
- For wind, solar, storage and other types of energy generation projects, direct pay is only available if the project is owned by **tax-exempt entity** (e.g., a solar project owned by a school district).
- IRS pays 100 cents on the dollar.

