

## **FACT SHEET: Four Ways the Inflation Reduction Act's Tax Incentives Will Support Building an Equitable Clean Energy Economy**

The Inflation Reduction Act of 2022 represents the most significant legislation to combat climate change in our nation's history. It will drive investment and dynamic economic growth, create new opportunities for workers by supporting good-paying jobs, and lower costs for American families as we build a clean energy economy. The Inflation Reduction Act also promotes broad-based economic opportunity, including in low-income communities, energy communities, and communities that have borne the brunt of pollution.

The U.S. Department of the Treasury will be at the forefront of implementation, delivering \$270 billion in tax incentives as part of the \$369 billion the Inflation Reduction Act dedicates to combating climate change. Treasury will engage a broad spectrum of taxpayers and stakeholders to inform implementation of this landmark legislation, in order to accelerate the building of a clean energy economy while working to ensure no community is left behind.

At today's Freedman's Bank Forum, senior Treasury officials hosted a roundtable in which participants discussed how Treasury's implementation of climate and clean energy tax incentives in the Inflation Reduction Act will help to mobilize capital for critical climate-related investments in low-income and under-invested communities, expand the clean energy economy for businesses and workers in these communities, and lower costs for working families. Building on that discussion, this fact sheet outlines four ways the Inflation Reduction Act's tax incentives will support building an equitable clean energy economy.

Note: The following descriptions are meant to provide a high-level overview of available tax incentives under the Inflation Reduction Act and do not constitute tax guidance. For more information on these provisions, their effective dates, and associated requirements, please see forthcoming guidance from the Internal Revenue Service.

### ***First, the Inflation Reduction Act will provide targeted incentives to drive investment and create opportunity in communities across the country.***

As Secretary Yellen has said, the Biden Administration's economic plan "embraces the notion that some of the best opportunities for growth occur when we invest in people and places that have been forgotten and overlooked." The Inflation Reduction Act's climate and clean energy tax incentives were designed to further this approach, and will provide bonuses for investing in low-income communities, as well as in communities that have historically depended on the energy sector for jobs and economic activity.

The Inflation Reduction Act [modifies and extends](#) the clean energy **Investment Tax Credit** to provide a 30 percent credit for qualifying investments in wind, solar, energy storage, and other renewable energy projects that meet prevailing wage standards and employ a sufficient

proportion of qualified apprentices from registered apprenticeship programs (discussed in greater detail in the next section). In connection with the Investment Tax Credit, the Inflation Reduction Act:

- **Provides an additional investment credit to be allocated to projects in low-income communities**, up to a total of 1.8 gigawatts of capacity developed annually
  - Projects located in [low-income communities or on Tribal land](#) are eligible for a bonus investment tax credit of 10 percentage points
  - Projects that are part of a [qualified low-income residential building project or a qualified low-income economic benefit project](#) are eligible for a 20 percentage point bonus investment tax credit
- **Provides a bonus credit of up to 10 percentage points for qualifying clean energy investments in [energy communities](#)**

The Inflation Reduction Act [modifies and extends](#) the Renewable Energy **Production Tax Credit** to provide a credit of 2.5 cents per kilowatt-hour in 2021 dollars (adjusted for inflation annually) of electricity generated from qualified renewable energy sources where taxpayers meet prevailing wage standards and employ a sufficient proportion of qualified apprentices from registered apprenticeship programs. In connection with the Production Tax Credit, the Inflation Reduction Act:

- **Provides a bonus credit of 10 percent for qualifying clean energy production in [energy communities](#)**

The Inflation Reduction Act provides **at least \$4 billion from the [Advanced Energy Project Credit](#)** – an allocated credit of up to 30 percent for advanced energy manufacturing investments – to projects in areas that have seen the closure of a coal mine or retirement of a coal-fired electric generating unit.

*Second, the Inflation Reduction Act will encourage clean energy project developers to meet strong labor standards, so that the benefits of building a clean energy economy are felt by the workers making it happen.*

According to credible third-party estimates, the Inflation Reduction Act's climate and clean energy tax incentives have the potential to drive investment that will [support more than one million jobs in energy and related manufacturing sectors over the coming decade](#). Reflecting the Biden Administration's commitment to supporting workers, the Inflation Reduction Act provides taxpayers with a strong incentive to meet high labor standards as they develop projects. By creating incentives for paying prevailing wages and utilizing qualified apprentices from registered apprenticeship programs in clean energy projects, the Inflation Reduction Act will help expand well-paying union jobs and support proven pathways into the industry that allow workers to earn while they learn.

To receive increased credit and deduction amounts under the Inflation Reduction Act, taxpayers will need to:

- **Pay workers the local prevailing wage**, defined in accordance with Department of Labor standards, for work on facility construction, as well as for alterations and repairs in a five-to-twelve-year period, depending on the credit, after a facility is placed in service
- **Hire a sufficient proportion of workers from registered apprenticeship programs**, including hiring these qualified apprentices for at least 10 percent of the labor hours spent on facility construction, alteration, or repair work (rising to 12.5 percent for facilities where construction begins in 2023 and 15 percent in 2024 and later years)

The prevailing wage and apprenticeship provisions will apply to:

- the Alternative Fuel Refueling Property Credit (§30C)
- the Production Tax Credit (§45, §45Y)
- the Credit for Carbon Oxide Sequestration (§45Q)
- the Credit for Production of Clean Hydrogen (§45V)
- the Clean Fuel Production Credit (§45Z)
- the Investment Tax Credit (§48, §48E)
- the Advanced Energy Project Credit (§48C)
- the Energy Efficient Commercial Buildings Deduction (§179D)

In addition, the prevailing wage provision will apply to:

- the New Energy Efficient Home Credit (§45L)
- the Zero-Emission Nuclear Power Production Credit (§45U)

The prevailing wage and apprenticeship provisions will become operative 60 days after Treasury issues guidance on those provisions.

For both the [Investment Tax Credit](#) and [Production Tax Credit](#), the Inflation Reduction Act also provides bonus credits for **meeting domestic content requirements**, which will further support good-paying manufacturing jobs in the clean energy supply chain.

***Third, the Inflation Reduction Act will lower the costs of energy-saving property improvements and rooftop solar installation, saving working families and small businesses money on their monthly utility bills and empowering families and businesses to shield themselves from volatile fossil energy prices.***

Household energy costs are a significant burden for many families and small businesses across the country. And when events like Russia’s unprovoked and illegal invasion of Ukraine cause a fossil energy price spike, low- and moderate-income families are often the hardest hit. Small businesses likewise face pressure as volatile energy prices eat into their profits. As we expand the clean energy economy, a typical family will save [hundreds of dollars per year](#) on their energy bills, and small businesses will be able to take advantage of programs to cut their energy costs by improving energy efficiency in their facilities. The Inflation Reduction Act will also provide direct assistance to American families investing in their homes to lower their energy bills and

shield themselves from future volatility in fossil energy prices. Specifically, the Inflation Reduction Act will:

- Extend and expand the **Energy Efficient Home Improvement Credit**, providing a total credit of up to \$1,200 annually for installing insulation or efficient windows and doors, with a special credit of as much as \$2,000 for electric heat pumps that provide super-efficient heating and cooling, including a \$150 credit for a home energy audit conducted by an inspector to help determine the best home improvement options
- Extend the **Residential Clean Energy Credit**, ensuring that households will be able to continue receiving a tax credit to cover up to 30 percent of the costs of installing rooftop solar and, starting next year, battery storage, through at least 2034
- Expand the **Energy Efficient Commercial Buildings Deduction** so that the level of a building owner's deduction increases as the cost savings generated by energy efficiency investments increases, which will reward greater energy efficiency

For more information on these tax credits as well as related rebates administered by the Department of Energy, please visit [CleanEnergy.gov](https://www.CleanEnergy.gov).

*Fourth, the Inflation Reduction Act allows state, local, and Tribal governments, as well as non-profit organizations and other tax-exempt entities, such as rural electric co-operatives, to receive certain tax credits as payments, expanding the range of actors that will have a direct incentive to invest in their communities.*

The Inflation Reduction Act recognizes that state, local and Tribal governments, as well as non-profit organizations and other tax-exempt entities, have played and will continue to play a central role in making investments to build a clean energy economy. To further promote broad-based investment across the country, the Inflation Reduction Act allows these actors to receive certain tax credits as direct payments from the Internal Revenue Service, streamlining these entities' access to key incentives and supporting their investments in local communities.

State, local, and Tribal governments, as well as non-profit organizations and other tax-exempt entities, may elect to receive the following credits as direct payments:

- the Alternative Fuel Refueling Property Credit (§30C)
- the Production Tax Credit (§45, §45Y)
- the Credit for Carbon Oxide Sequestration (§45Q)
- the Zero-Emission Nuclear Power Production Credit (§45U)
- the Credit for Production of Clean Hydrogen (§45V)
- the Credit for Qualified Commercial Clean Vehicles (§45W, tax-exempt entities only)
- the Advanced Manufacturing Production Credit (§45X)

- the Clean Fuel Production Credit (§45Z)
- the Investment Tax Credit (§48, §48E)
- the Advanced Energy Project Credit (§48C)