

TAX POLICY UPDATE

Inflation Reduction Act: Reducing carbon footprint and tax liability

Sep. 21, 2022

Today's presenters



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Today's agenda

TOPIC

Welcome

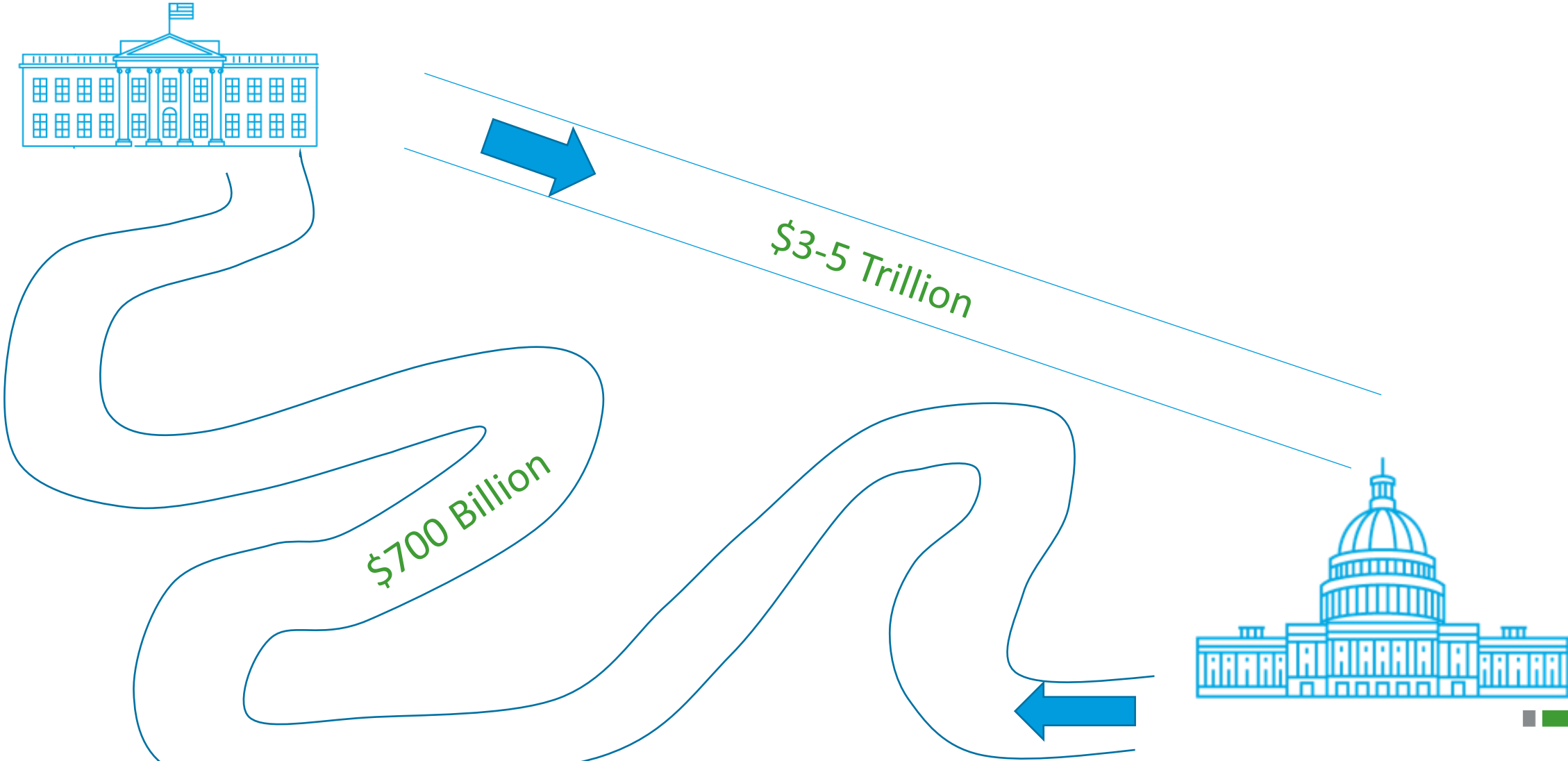
Inflation Reduction Act of 2022 – Energy security

- Introduction and general concepts
- Clean fuels
- Reducing carbon emissions
- Clean electricity
- Manufacturing
- Clean vehicles
- Building and construction
- Individuals and consumers
- New excise taxes

What's next?


INFLATION REDUCTION ACT: ENERGY SECURITY

Inflation Reduction Act: The long and winding road



Inflation Reduction Act: Win for clean energy




*The President
requests the pleasure of your company
at an event celebrating the passage of the
Inflation Reduction Act
to be held at
The White House
on Tuesday, September 13, 2022
at three o'clock*

Inflation Reduction Act of 2022 – Clean energy roadmap



Subtitle D energy security

General concepts

- Base and bonus rates
- Prevailing wage requirements
- Apprenticeship

Domestic content

- “Direct Pay” and transferability of certain credits
- Extensions generally through 2024; some longer

Clean electricity & reducing carbon emissions

Extending/modifying existing credits

- 45 – Production tax credit (PTC)
- 48 – Energy credit (ITC)
- 45Q – carbon capture

New credits

- 48 –increase ITC for solar in low-income communities
- 45U – Zero emission nuclear power PTC

Clean fuels

Extending/modifying existing credits

- 40, 40A, 6426, 6427 – - biodiesel, alternative fuels
- 40(b)(6) – second generation biofuel

New credits

- 40B/6426/6427 – sustainable aviation fuel blender credit
- 45V – PTC – clean hydrogen

Manufacturing & energy security

Extending/modifying existing credits

- 48C – Advanced energy project credit – new credit allocation

New credits

- 45X – Advanced manufacturing PTC

Clean energy incentives For individuals

Extending/modifying existing credits

- 25C – Nonbusiness energy (extend/increase/modify)
- 25D – Residential energy efficient property
- 179D – Energy efficient commercial buildings
- 45L – New energy efficient homes

Clean vehicles

Extending/modifying existing credits

- 30C – Alternative fuel refueling property
- 30D – Clean Vehicles credit

New credits

- 25E – Used clean vehicles
- 45W – Commercial vehicles

Clean electricity and transportation

Below new incentives generally effective 1/1/2025

- 45Y – Clean Electricity PTC
- 48D* – Clean Electricity ITC
- 45Z – Clean Fuel PTC
- Cost recovery for qualified facilities, property, and storage

Superfund excise tax

New tax

- 4611 – Reinstate hazardous superfund financing rate on crude oil and petroleum products

Highlights - General concepts

- What is “energy security”?
 - Develop domestic markets; job creation
 - Shift from petroleum to renewables
 - Carbon emission reductions
- Green compromise
 - Extension of existing credits generally through 2024; some through 2032 (House Ways & Means proposals)
 - New credit regime beginning Jan. 1, 2025 (Senate Finance proposals)

Highlights - General concepts

- Change in regime to base and bonus rates
 - Bonus rate is 5x base rate
 - Prevailing wage and apprenticeship requirements for bonus rate
 - Domestic content requirement may for 10% increase to some credit rates
 - Bonus or set-aside structure to drive investments and economic development in disadvantaged communities

Highlights - General concepts

- Monetization
 - “Direct Pay” = Refundability for some provisions
 - Transferability = Sale of credits for cash for many provisions
 - Many unknowns re: administration of provisions

Highlights – Clean fuels

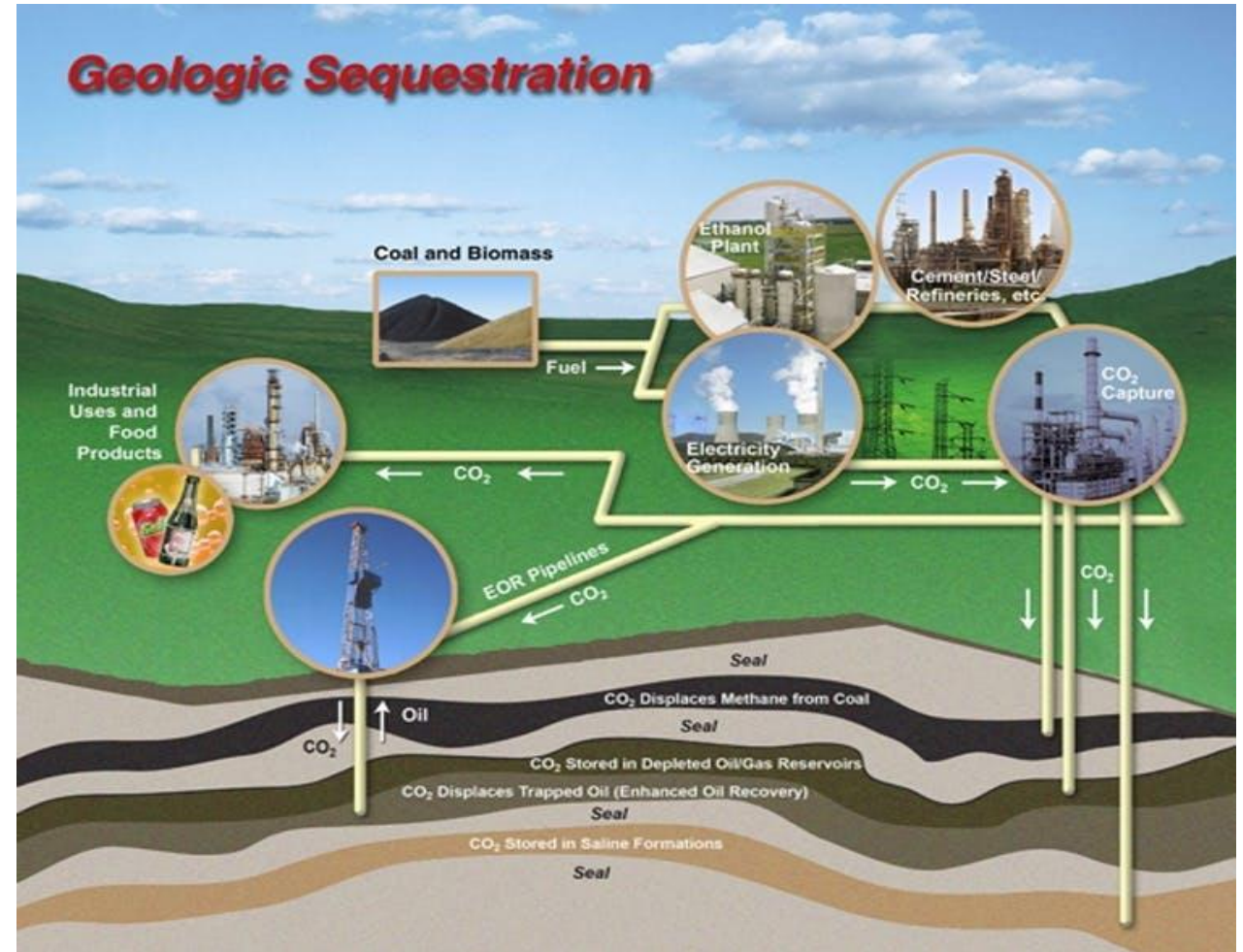


- Extension of existing biofuel credits through 2024
 - Biodiesel
 - Alternative fuel
 - Second generation biofuel
- New credits
 - Sustainable aviation fuel (SAF)
 - Clean hydrogen
- New clean fuel production tax credit regime – 2025

Reducing carbon emissions

Carbon capture and sequestration

- Increase credit rates
- Expand availability to claim
- Direct pay – five years



Source: U.S. Department of Energy

Highlights – Clean electricity



- Production tax credit (PTC) and investment tax credit (ITC)
 - Solar PTC returns
 - New ITC qualifying property including battery storage, interconnection, renewable natural gas, microgrids, and dynamic glass
 - Increased rate for solar investment in low-income communities
- New credit
 - Zero emission nuclear power
- Direct pay and transferability
- New clean electricity PTC/ITC regime – 2025

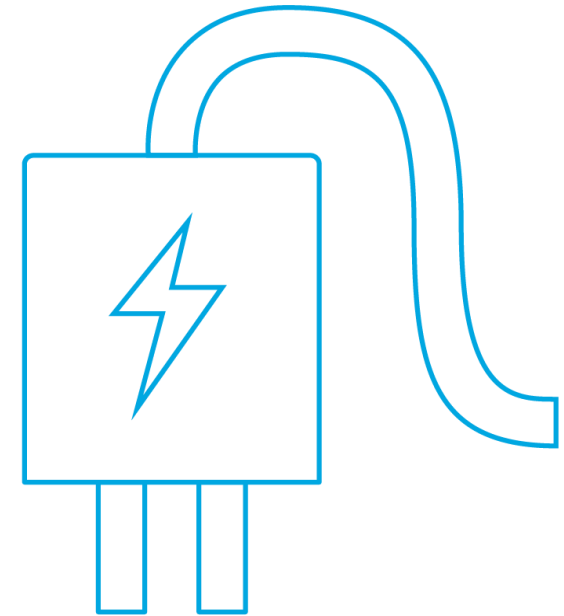
Highlights – Manufacturing

- New round of allocations for advanced energy project credit
- New advanced manufacturing PTC for U.S. manufactured solar, wind and electric vehicle components
- New credit for semi-conductor manufacturing industry – CHIPS and Science Act of 2022



Highlights – Clean vehicles

- Overhaul of clean vehicle credit – up to \$7,500 per vehicle
 - Remove cap on vehicles produced
 - Income and MSRP limitations
 - Sourcing of materials and final assembly
- Expansion of alternative refueling property credit
- New credits
 - Commercial vehicles – up to \$40,000 per vehicle
 - Used electric vehicles – up to \$4,000 per vehicle



Highlights – Building and construction

Energy-efficient commercial building deduction

- Deduction of up to \$5 per square foot for eligible properties placed into service after 2022
- Prevailing wage and apprenticeship requirements to get maximum deduction
- Threshold to qualify as an energy-efficient building decreased to minimum reduction in annual energy costs of 25 percent (down from 50%)
- Deduction calculated on an increasing scale from 25-50 percent

Homebuilder credit

- Retroactively reinstated and extended existing credit through 2022
- For 2023:
 - \$2,500 for EnergyStar constructed homes
 - Up to \$5,000 for certified DOE Zero Energy Ready Home (ZERH) homes
- Prevailing wage requirements for multifamily homes for highest credit rates

Highlights – Individuals and consumers

- 10 years of consumer tax credits to make homes energy efficient and run on clean energy
 - Heat pumps
 - Rooftop solar
 - Electric HVAC
 - Water heaters
- \$9 billion in consumer home energy rebate programs, focused on low-income consumers, to electrify home appliances and for energy efficient retrofits.
- \$1 billion grant program to make affordable housing more energy efficient



Highlights – New excise taxes and fees

- Superfund excise tax on crude oil and imported petroleum products
- Coal excise tax now permanent
- New excise tax on the sale of selected drugs by manufacturers, producer or importers during specific “non-compliance” periods
- New methane emissions fee

WHAT'S NEXT?

Inflation Reduction Act: Treasury guidance

Guidance issued Sep. 13, 2022 on one-time biofuel claims

Additional guidance:

- When will it be issued?
- In what form?
- What issues will be top priorities?
- How can companies inform the guidance process?

Inflation Reduction Act: What should companies be thinking about today?

- Clean energy assessments
- Project planning
- Modeling financial impacts
- Contract negotiations
 - Clauses for prevailing wage and apprenticeship
 - Tax insurance
- Establishing markets for transferability

THANK YOU FOR
YOUR TIME AND
ATTENTION

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