

FACT SHEET: How the Inflation Reduction Act's Tax Incentives Are Ensuring All Americans Benefit from the Growth of the Clean Energy Economy

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WASHINGTON—President Biden's Inflation Reduction Act is the most significant legislation to combat climate change in our nation's history, and one of the largest investments in the American economy in a generation. Already, this investment and the U.S. Department of the Treasury's implementation of the law has unleashed an investment and manufacturing boom in the United States unlike anything seen in decades—especially in disadvantaged communities.

The Inflation Reduction Act is significant not only because it tackles the climate crisis head on, but because it does so with economic opportunity at its core to build a clean energy economy that includes everyone.

Since President Biden took office, companies have announced more than \$115 billion in manufacturing investments to build our clean energy economy. Treasury analysis released in August demonstrates these announced investments in clean energy production, electric vehicles, and batteries are concentrated in communities with lower income, lower college graduation rates and lower employment rates. These investments are a feature of what Secretary Yellen calls modern supply-side economics, which seeks to spur economic growth by both boosting labor supply and raising productivity, while reducing inequality and environmental damage. Investing in these communities helps provide local opportunity and boost national productivity growth.

LOW-INCOME COMMUNITIES BONUS CREDIT PROGRAM APPLICATION OPENING

Ahead of the Biden-Harris Administration's third Freedman's Bank Forum, the Administration's work to ensure all Americans benefit from the growth of the clean energy economy hit an important milestone with this week's opening of applications for the Inflation Reduction Act's Low-Income Communities Bonus Credit, 48(e). On the first day of the 30-day application

window, the Administration received 725 applications from communities across the country, representing around 170 MW of capacity.

This groundbreaking allocated credit provides up to a 10 or 20-percentage point boost to the Investment Tax Credit for qualified solar or wind facilities in low-income communities. The goals of the program are to increase clean energy facilities in low-income communities, encourage new market participants, and benefit individuals and communities that have experienced adverse health or environmental effects or lacked economic opportunities. This program will advance President Biden's Investing in America Agenda by lowering energy costs and providing breathing room for hard-working families, investing in good-paying clean energy jobs in low-income communities, and supporting small business growth.

The Low-Income Communities Bonus Credit program will allocate 1.8 gigawatts of capacity available for the 2023 program across four categories of solar or wind facilities with maximum output of less than five megawatts. The IRS intends to allocate up to: 700 megawatts to facilities located in low-income communities; 200 megawatts to facilities located on Indian land; 200 megawatts to facilities that are part of federally-subsidized residential buildings, including housing supported by the Low-Income Housing Tax Credit and Section 8 of the Housing Act; and 700 megawatts to facilities where at least 50% of the financial benefits of the electricity produced go to households with incomes below 200 percent of the poverty line or below 80 percent of area median gross income. Awards under this program will start to be made by the end of the year.

President Biden's economic strategy leverages the importance of people and places to help us reach our economic potential and Treasury is working to ensure that all Americans and communities across the country benefit from the growth of the clean energy economy:

FIRST, THE INFLATION REDUCTION ACT PROVIDES TARGETED INCENTIVES TO DRIVE INVESTMENT AND CREATE OPPORTUNITY IN COMMUNITIES ACROSS THE COUNTRY.

As Secretary of the Treasury Janet L. 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 clean energy tax incentives were designed to further this approach and provide place-based bonuses for investing in low-income communities and

communities that have historically depended on the fossil fuel industry for jobs or been harmed by pollution.

The Inflation Reduction Act modifies and extends the clean energy Investment Tax Credit to provide up to a 30% 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 addition to the bonus for the Investment Tax Credit for projects in low-income communities, the Inflation Reduction Act:

- 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 up to 2.75 cents per kilowatt-hour in 2022 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% 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 ENCOURAGES CLEAN ENERGY PROJECT DEVELOPERS TO MEET STRONG LABOR STANDARDS, SO THAT WORKERS BENEFIT FROM THE CLEAN ENERGY ECONOMY THEY ARE HELPING TO BUILD.

According to 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 1 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 build projects. By

creating incentives for paying prevailing wages and utilizing qualified apprentices from registered apprenticeship programs in clean energy projects, the Inflation Reduction Act is helping 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 must:

- 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% of the labor hours spent on facility construction, alteration, or repair work (rising to 12.5% for facilities where construction begins in 2023 and 15% in 2024 and later years)

The prevailing wage and apprenticeship provisions 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 went into effect on January 29, 2023.

For both the Investment Tax Credit and Production Tax Credit, the Inflation Reduction Act also provides bonus credits for meeting requirements to use materials produced in the United States, 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:

- Extends and expands 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.
- Extends 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.
- Expands 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:

Tax-Exempt Entities Only

- the Production Tax Credit (45, 45Y)
- the Investment Tax Credit (48, 48E)
- the Credit for Qualified Commercial Clean Vehicles (45W)
- the Zero-Emission Nuclear Power Production Credit (45U)
- the Alternative Fuel Refueling Property Credit (30C)
- the Advanced Energy Project Credit (48C)
- the Clean Fuel Production Credit (45Z)

Businesses eligible for up to five years

- the Credit for Carbon Oxide Sequestration (45Q)
- the Credit for Production of Clean Hydrogen (45V)
- the Advanced Manufacturing Production Credit (45X)

Today's fact sheet comes ahead of the Treasury Department's third annual Freedman's Bank Forum on October 25, where senior Biden-Harris Administration officials will join key leaders from the public, private, nonprofit, and philanthropic sectors to discuss the Biden-Harris Administration's efforts to increase economic opportunity for communities of color. Media wishing to attend can RSVP to press@treasury.gov.

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