

Green tax initiatives for manufacturers in the Inflation Reduction Act

Doug Kolker, CPA | doug.kolker@wipfli.com | wipfli.com

The **Inflation Reduction Act of 2022 (IRA)** was signed into law on August 16, 2022. Much of the attention of this Act has been on the additional funding of the IRS and on credits for electric vehicles. However, there were several revised and new code sections that provide for certain tax credits related to the production of and investment in a wide array of energy projects, components and facilities. Therefore, American manufacturers whose products may have green energy elements to them should be familiar with these credits.

Following are two of the credits that were either modified by or introduced by the IRA:

Section 48C – Qualified Advanced Energy Projects

■ What qualifies for the credit?

Investments in new or upgraded facilities that manufacture or recycle certain components qualify. There is also a broad application for improving existing manufacturing facilities to reduce greenhouse gas emissions by 20% or more.

■ How much is the credit?

The credit is up to 30% of the amount invested. It's a 6% credit that's multiplied by five if certain prevailing wage and apprenticeship requirements are met.

■ When did the credit start?

January 1, 2023, but the application process opens May 31, 2023.

■ Is there anything unique about this credit?

There is a set amount of funds allocated to this credit, which is \$10 billion. Of this amount, 40% is earmarked for factories in energy communities, which is a census tract where a coal mine or coal plant closed since January 1, 2000. This is expected to be a competitive application process and awardee information, including the amount of credit received, will likely be publicly disclosed.

■ How does one get this credit?

A taxpayer must apply to the IRS for approval and an allocated credit amount before claiming this credit on their tax return. The IRS has not yet released detailed procedures for applying. There are also options for direct payment and transfer of the credit.

■ What is direct pay?

What was once only available to tax exempt and government entities is now available to eligible taxpayer businesses due to the new Internal Revenue Code Section 6417. More guidance is expected from the IRS as to how to take full advantage of the new direct pay opportunity.

■ Can credits be sold for cash?

Yes! Under another new code section 6418, taxpayers can make an irrevocable election to transfer their credits.

Section 45X – Advanced Manufacturing Production Tax Credit

■ What qualifies for the credit?

Renewable energy components produced in the United States, such as battery cells, photovoltaic cells, wind turbines and many others, including certain critical minerals qualify.

■ How much is the credit?

There are detailed tables specifying an amount per unit. For example, the credit for photovoltaic wafers is \$12 per sq. meter.

■ When did the credit start?

January 1, 2023.

■ Is there anything unique about this credit?

If these products are produced in a facility where the Section 48C credit was claimed, then a Section 45X credit cannot be claimed on the components produced in that facility.

■ How does one get this credit?

To receive the credit, a taxpayer must claim it on their tax return under Code Section 38 General Business Credit.