

Inflation Reduction Act of 2022

A SUMMARY OF THE TAX INCENTIVES

As of August 12, both chambers of the U.S. Congress have passed the **Inflation Reduction Act of 2022**. Title I, Subtitle D of the Act includes a number of tax incentives that together play a central role in driving greenhouse gas emissions reductions to an estimated 42% below 2005 levels by 2030. Through investments in advanced zero-carbon energy and climate technologies, many of these provisions are also critical to positioning the U.S. economy to meet longer-term 2035 and 2050 decarbonization goals.

→ Provisions to boost clean electricity

The Inflation Reduction Act's clean electricity provisions address a range of zero-carbon sources, providing certainty that funding will be available to support new facilities and protect existing carbon-free nuclear energy power plants. Some incentives target benefits to low-income communities (Sec. 13103). In general, full funding is conditional on meeting labor requirements, and in some cases, bonus funding is provided for meeting domestic content thresholds or locating in energy communities.

The Inflation Reduction Act:

- Extends the existing renewable energy production tax credit (Sec. 13101) and investment tax credit (Sec. 13102) through 2024 at which point it converts to a technology-neutral credit regime through 2032 or whenever greenhouse gas emissions standards are reached (and then phases down), whichever is later (Sec. 13701 and Sec. 13702).
- Extends and enhances the credit for carbon sequestration (Sec. 13104), including by boosting the incentive amounts for secure geologic storage and direct air capture.
- Provides an incentive to maintain electricity production from existing nuclear energy (Sec. 13105), the largest source of zero-emission electricity in the U.S. Eligible facilities have until 2032 to take advantage of the credit.

→ Provisions to encourage investment in production of clean fuels

The Inflation Reduction Act clean fuel provisions will ramp up production of various zero- and low-carbon fuels, including clean hydrogen, renewable fuels (Sec. 13201, Sec. 13202) and sustainable aviation fuels (Sec. 13203). Measures encouraging clean hydrogen production are critical to drive supply of fuels that will be needed to decarbonize hard-to-electrify sectors like heavy industry and heavy-duty trucks.

For hydrogen production facilities that begin construction by 2032, tax incentives are provided for clean hydrogen (at or below 4 kilograms of CO₂ per kilogram of hydrogen) produced (Sec. 13204) based on the lifecycle emission rate. The incentive ranges from 20-100% of the full incentive value depending on the emission rate. Hydrogen produced with an emission rate below 0.45 kilograms of CO₂e per kilogram of hydrogen receives the full incentive value. This approach encourages the production of hydrogen powered by renewable energy, nuclear energy, and fossil fuels equipped with carbon capture.

→ Provisions to encourage cleaner homes and businesses

The Inflation Reduction Act provides incentives to encourage energy efficient homes, both new (Sec. 13304) and existing (Sec. 13301), and more efficient commercial buildings (Sec. 13303). Homeowners are also encouraged to install battery storage (Sec. 13302).

→ Provisions to encourage purchase and use of clean vehicles, including heavy-duty vehicles

The Inflation Reduction Act targets incentives to individual consumers purchasing new (Sec. 13401) or used (Sec. 13402) clean vehicles, either electric or fuel cells. Additional incentives focus on commercial clean vehicles (Sec. 13403) and offer a tax credit for refueling property (Sec. 13404), including hydrogen fueling.

→ Provisions to encourage clean energy manufacturing

The Inflation Reduction Act offers incentives to manufacturers and industrial facilities to produce a range of advanced energy technology and systems, as well as reduce their own emissions by at least 20% (Sec. 13501). This supports development of domestic supply chains for critical energy technologies while also driving investments in solutions such as carbon capture, transport, utilization and storage systems consistent with net-zero emissions goals. Incentives are also provided to manufacturers of solar and wind energy equipment, including offshore wind equipment such as platforms and offshore vessels, as well as battery components and critical minerals (Sec. 13502).

