How Energy Companies Can Maximize IRA Renewable Energy Credits

A CHECKLIST FOR ENERGY COMPANIES

The Inflation Reduction Act (IRA), signed into law in August 2022, **allocates $369 billion** for energy security and clean energy programs over the next 10 years. The new law represents a historic opportunity for energy companies and other stakeholders. It includes expansions and modifications to existing tax credits and introduces new credits and structures to encourage investment in renewable energy. While some guidance has already been issued, additional information about how to satisfy applicable requirements and navigate these changes is forthcoming.

Business leaders need to understand how changes in the IRA may affect their current and future plans. While most energy companies are familiar with the process for claiming tax credits, the new law introduces complex features that should be reviewed carefully. For example, credit rates have changed, the monetization options are different and new bonus credits are available.

Eligibility for bonus credits is dependent on the project type, materials, location and other factors. If companies meet the requirements, the benefit amount may increase significantly. All of these details in the IRA can impact an organization's decision-making. Other conditions, such as prevailing wage and apprenticeship requirements, will need to be reviewed. As a result, companies will need to put processes in place to determine the best way to confirm relevant details with the developers or third-party contractors they're working with.

Companies cannot pursue all the credits, so leaders should assess their forecasts carefully. They may benefit from running cost-modeling scenarios to determine which projects may result in the most advantageous tax benefits and align with strategic objectives. Taking a holistic approach can help businesses understand the potential impact on **total tax position**, capture all available credits and plan future projects in a manner that maximizes potential savings.

REVIEW THE CHECKLIST BELOW TO IDENTIFY KEY FOCUS AREAS FOR YOUR BUSINESS AND TO UNDERSTAND THE NEXT STEPS TO HELP MAXIMIZE TAX BENEFITS.

1. Conduct a holistic review of current and forecasted projects.

- ☐ Determine which current and/or planned projects may qualify for credits under the IRA, and what the associated requirements are to receive the maximum credit value. Review whether new credits may impact decisions about future business strategy and capital projects.

2. Choose which tax credit provides the most beneficial incentive.

- ☐ Renewable energy projects may be eligible for more than one type of credit, but in most instances, companies can claim only one type of credit per project. Determine which credit is most advantageous for a specific project based on factors such as timeline, capacity and capital costs.

3. Understand the two-tier credit system of base and bonus rates.

- ☐ The bonus rate is up to five times the base rate, but specific wage and apprenticeship requirements must be satisfied to qualify for the full bonus rate.
- ☐ During the initial review process, organizations should determine whether the larger credit amount received under the bonus rate justifies the additional time and expense necessary to satisfy the requirements.

4. Review how to satisfy requirements when working with a third party and identify the information needed to meet the requirements.

- ☐ There will be a learning curve for both companies and contractors working on applicable projects. Meeting the specific requirements for IRA credits will entail sharing new types of information. For example, it may be challenging to be transparent regarding a third party's pricing and markup policies.

5. If current projects are eligible for new tax credits, determine whether they may be affected by cost increases, delays, or both, in order to meet the requirements.

- ☐ Project costs may change, perhaps significantly, if the third party must alter its work to satisfy conditions for credits. Wage and apprenticeship requirements could prove especially challenging if not factored into the cost previously.
- ☐ Making significant changes may cause delays that could reduce the credit's expected benefits. In this case, organizations can benefit from running a cost-benefit analysis to make informed decisions.

6. Negotiate — or renegotiate — contracts to reflect any terms relating to compliance with tax credit requirements.

- ☐ Considerations will likely differ for engineering, procurement and construction (EPC) contracts, which are typically fixed in price, compared to operation and maintenance (O&M) contracts, which can vary widely. Indemnification provisions may be necessary in the contract.

7. Assess whether to purchase an insurance policy on the tax credits.

- ☐ Insurance has been available for some types of credits, but the insurance market for renewable energy credits is just beginning to emerge. It is likely to expand significantly in the months and years ahead, and insurance may be an important consideration depending on the project.

8. Consider new tax credit monetization options.

- ☐ Companies without significant tax liability, that previously may have pursued a tax equity structure to monetize project tax benefits, now have the option to sell tax credits under the **new direct transfer rules**. Leaders should weigh both options to determine the best path forward for the business.

READY TO START BENEFITTING FROM NEW TAX CREDITS?
Contact us to learn how BDO's experienced professionals can help your business evaluate the available credits, stay up to date on the latest guidance, negotiate contracts and plan accordingly to meet requirements.