48C vs. 45X

Which Inflation Reduction Act Tax Credit Should You Claim?

The Inflation Reduction Act (IRA) presents significant opportunities for manufacturers to fund new renewable energy projects, offset total tax liability, or generate untaxed cash from some tax credits due to the new credit monetization capability. Capitalizing on these opportunities requires knowing which credits are applicable to your business, and in some cases, deciding which to pursue to best achieve your organization's goals and needs. **Here, we share insight and guidance that can help inform you.**

BACKGROUND ON IRA CREDIT CHANGES

Two major changes to the U.S. tax credits regime include the introduction of the advanced manufacturing production tax credit under Internal Revenue Code Section 45X and the revival of the qualifying advanced energy project credit under IRC Section 48C. Both credits are monetizable and may be exchanged for cash.

The 48C credit is an upfront tax credit based on the capital investment in an industrial or manufacturing facility, and the amount of the credit does not vary depending on how much product a plant sells. Conversely, the 45X credit is earned over time based on the production and sale of specific, eligible components.

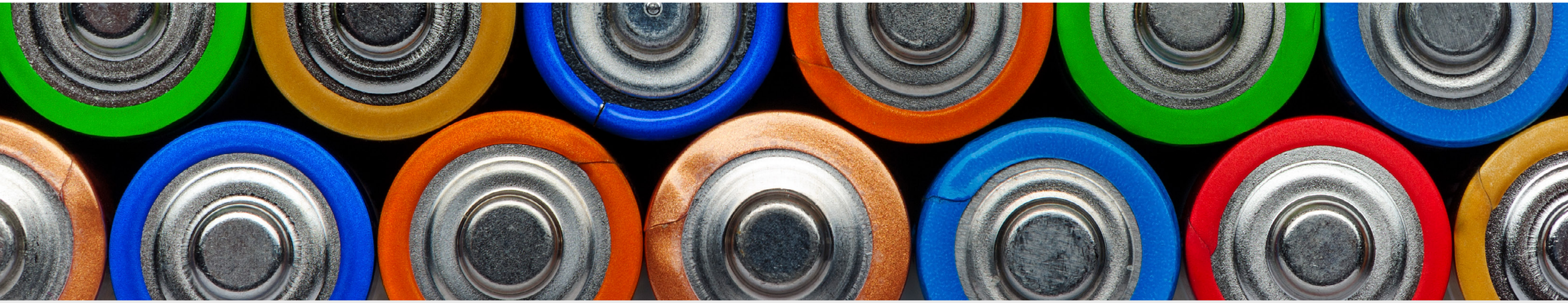
UPCOMING DEADLINES AND UNDERSTANDING QUALIFICATION

While the deadline for submitting concept papers for the first round of 48C funding has passed, a second round of funding will open in early 2024. In contrast, the Section 45X credit is a statutory credit with no application deadline — but keep in mind that **it will be phased out beginning in 2030**.

Ahead of the second 48C funding round, manufacturers should analyze their planned projects and identify opportunities to claim credits. Some may find they qualify for 48C, 45X, or both. It is important to know, however, that manufacturers cannot claim 45X credits for any facility that has already claimed a 48C credit.

Do you know if you qualify for the 48C credit, the 45X credit, or both? If you qualify for both, which should you pursue?

The following questions can help you assess which credits you may qualify for and how to choose between the 48C and 45X credits.



Evaluating Whether You Qualify for 48C or 45X Credits

ARE YOU REEQUIPPING, EXPANDING, OR ESTABLISHING ANY FACILITIES THAT PRODUCE OR RECYCLE THE FOLLOWING?

- Renewable energy-generating technology
- Fuel cells, microturbines, or energy storage systems and components
- Carbon capture, utilization, and storage
- Electric and fuel cell vehicles or their components
- Energy grid modernization equipment or components
- Renewable fuel-generation equipment
- Energy conservation technologies (e.g., products that are more energy efficient than those currently in the market)
- Greenhouse gas emission-reducing technology
- Critical mineral processing/recycling facilities

If you selected one or more of these responses, you are investing in a qualified energy project and may be eligible for the qualifying advanced energy project tax credit under Section 48C.

ARE YOU PRODUCING ANY OF THE FOLLOWING COMPONENTS IN THE U.S. FOR SALE TO AN UNRELATED PARTY OR PARTIES?

- **Solar component**
  - Thin film voltaic cell or a crystalline photovoltaic cell
  - Photovoltaic wafer
  - Solar grade polysilicon
  - Polymeric back sheet
  - Solar module
  - Torque tube
  - Structural fastener
- **Offshore wind**
  - Wind energy component (offshore wind vessel)
  - Offshore wind foundation
- **Wind onshore and offshore**
  - Wind turbine blade
  - Nacelle
  - Tower
- **Inverters**
  - Inverter
  - Central inverter
  - Commercial inverter
  - Distributed wind inverter
  - Microinverter
  - Residential inverter
  - Utility inverter
- **Batteries**
  - Electrode active materials
  - Battery cell
  - Battery module
- **Processing of critical minerals**

If you answered "yes" to this question, you may be eligible for the advanced manufacturing production tax credit under Section 45X. Check the **specific definitions of components on the Department of Energy website** to confirm eligibility.

Eligible for Both 48C and 45X?

While manufacturers cannot claim the 45X credit for products manufactured at a facility for which they claimed a 48C credit, vertically integrated businesses may qualify for both credits. For example, if a company manufactures a component from equipment for which it claimed a 48C credit, and then uses that component to produce 45X-eligible products using other equipment, the company may be eligible to claim both credits.

If your facilities are eligible for both 48C and 45X and you are deciding which to claim, the following questions will help you evaluate which is the best fit for your business:

- **How would you describe your current relationship with your stakeholders?**
  a. We are exploring a sale or raising capital and we are focused on commanding the highest possible valuation for our company.
  b. We are not exploring a sale or raising capital, and increasing our valuation is not currently a top priority.

If you chose "a," then pursuing 45X may be the better choice for your business, because the value of the credit over its lifetime is generally higher. 48C credits will generally be smaller than the lifetime value of 45X credits, and their value is limited to the initial award from the federal government, so the benefit will be more immediate but may not be as high.

- **How would you describe your capital needs right now?**
  c. We urgently need cash and/or capital to fund our planned projects.
  d. We are not in urgent need of cash and/or capital to fund our projects.

If you answered "a," 48C may be more advantageous for your business because it provides cash up front to subsidize capital expenditures, whereas 45X has a longer timeline and does not provide immediate cash. If you are not urgently in need of cash, 45X may be a better choice because it offers greater long-term value.

HAVE QUESTIONS OR WANT TO LEARN MORE? SCHEDULE A CALL TODAY

BDO'S TAKE

Manufacturers have several months to prepare for the next round of 48C funding, slated for early 2024. Those who applied during the first round should closely review the government's response to their applications and be prepared to incorporate any lessons learned in future applications. Manufacturers who were denied in the first round can reapply for the second round, incorporating the government's specific feedback. BDO plans to publish key takeaways about lessons learned from the first 48C funding round after that feedback is released, so **make sure you are registered to receive BDO Tax content** directly in your inbox.

When it comes to the 45X credit, there is no limit on the lifetime value manufactures can claim — but because it is based on sales, companies must ensure their sales projections are realistic. Failing to meet projections could mean falling short of realizing the full expected value of the credit. Manufacturers should carefully analyze the underlying assumptions that inform their projections about the lifetime value of the 45X credit. Doing so will help them generate more realistic projections on the impact of the 45X credit on their operations.

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