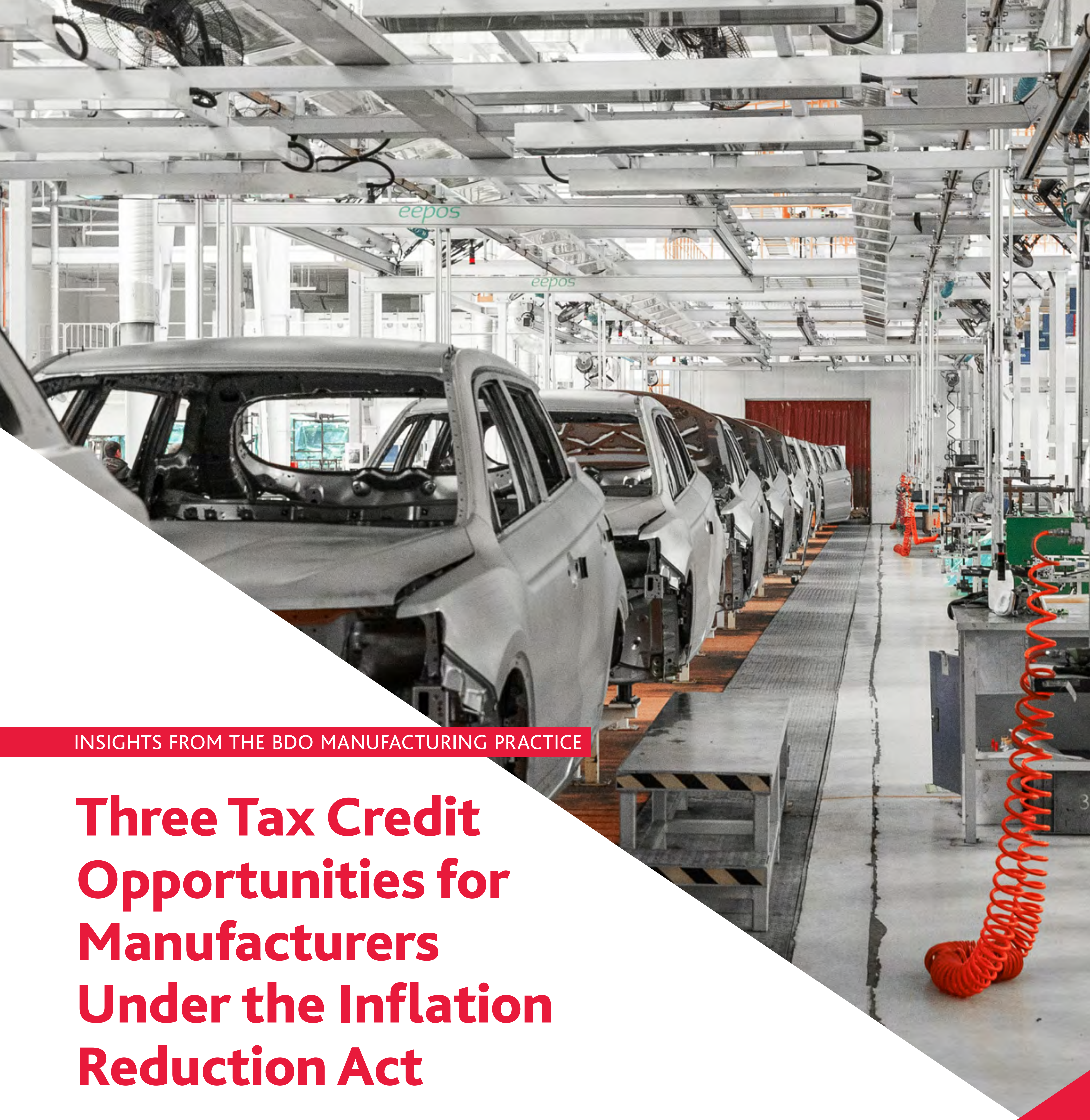

INSIGHTS FROM THE BDO MANUFACTURING PRACTICE

Three Tax Credit Opportunities for Manufacturers Under the Inflation Reduction Act

In 2022, Congress passed the Inflation Reduction Act (IRA), a broad piece of legislation featuring provisions to advance clean energy production and domestic manufacturing capacity. Changes to tax credits and incentives under this new law offer manufacturers significant opportunities to fund new renewable energy projects and investment in domestic manufacturing of equipment such as electric vehicles (EVs).

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The IRA aims to increase manufacturing competitiveness by incentivizing onshoring, creating jobs and expanding the U.S. renewables sector. Manufacturers should consider three relevant tax provisions the IRA either introduces or updates:

1. The qualifying **advanced energy project investment** tax credit (the 48C credit)
2. The **advanced manufacturing production** tax credit (the 45X credit)
3. The qualified **commercial clean vehicles** credit (the 45W credit)

READ ON FOR SUMMARIES OF THE KEY FACTS AND CONSIDERATIONS FOR MANUFACTURERS AROUND EACH TAX CREDIT.▶

Qualifying Advanced Energy Project Investment Tax Credit (the 48C Credit)

KEY FACTS

In 2009, Congress and then-President Obama enacted the America Recovery and Reinvestment Act, which included the qualifying advanced energy project investment tax credit (the 48C credit). This credit initially applied to investment in facilities that produced various renewable energy assets and other property that reduced greenhouse gas emissions. The IRA provided new funding for the 48C credit and expanded the definition of qualified energy projects to include facilities that produce components used in carbon capture, utilization and storage, energy grid modernization, renewable fuel generation and refinement, components of electric vehicles, and recycling facilities for eligible components. Manufacturers investing to construct, re-equip or expand a facility that meets the definition of a qualified advanced energy project can apply for an allocation of the 48C credit.

The IRS, based on recommendations from the Department of Energy, will award $10 billion in 48C credits via a two-step application process, with $4 billion reserved for projects located in energy communities. The base amount of the 48C credit is 6%, but the total credit can be as high as 30% if applicants meet prevailing wage and apprenticeship requirements. Recipients can claim 48C credits on federal corporate income taxes for a percentage of eligible investment costs placed into service during the current tax year. Corporations or flow-through entity shareholders who lack the ability to utilize the credits may sell them for cash under the new IRA credit transfer provisions.

The first phase requires applicants to submit a concept paper to the Department of Energy describing the merits and commercial viability of their proposed project. Following submission of a concept paper, the Department of Energy will encourage or discourage taxpayers from submitting a formal application. The IRS and Treasury anticipate providing at least two rounds of funding under the 48C credit. The **initial round of concept paper submissions commencing the 48C program** — which will award $4 billion of the $10 billion allocated for 48C credits — begins May 31, 2023, and ends on July 31, 2023. **A second round of allocation** will open in 2024, which will be open to organizations who were not successful in obtaining funding in the first round.

CONSIDERATIONS FOR MANUFACTURERS

The 48C application process will be competitive, so companies should assess the merits of their project before submitting a concept paper to the Department of Energy, which will begin accepting concept papers on May 31, 2023. The concept papers should outline details regarding proposed project timelines and finances, as well as a description of how the project would advance innovation and create jobs.

The application form to be submitted during the second step of the process is not yet available, but ultimately, applications should present a convincing narrative illustrating why a project is important to the U.S. economy and renewables industry and making a case for why the 48C credit is integral to its success. Manufacturers should keep in mind that applying for the 48C credit will require investing significant time and resources, and submitting an application does not guarantee that a 48C credit will be awarded.

Since the $10 billion initially allocated to the 48C credit may not be replenished, manufacturers should submit their applications as early as possible. Manufacturers also must make sure they can complete proposed projects within the time frame prescribed; otherwise, the awarded credits would be forfeited. Manufacturers building entirely new facilities should also assess opportunities to negotiate additional incentives with state and local economic development authorities.

Advanced Manufacturing Production Tax Credit (the 45X Credit)

KEY FACTS

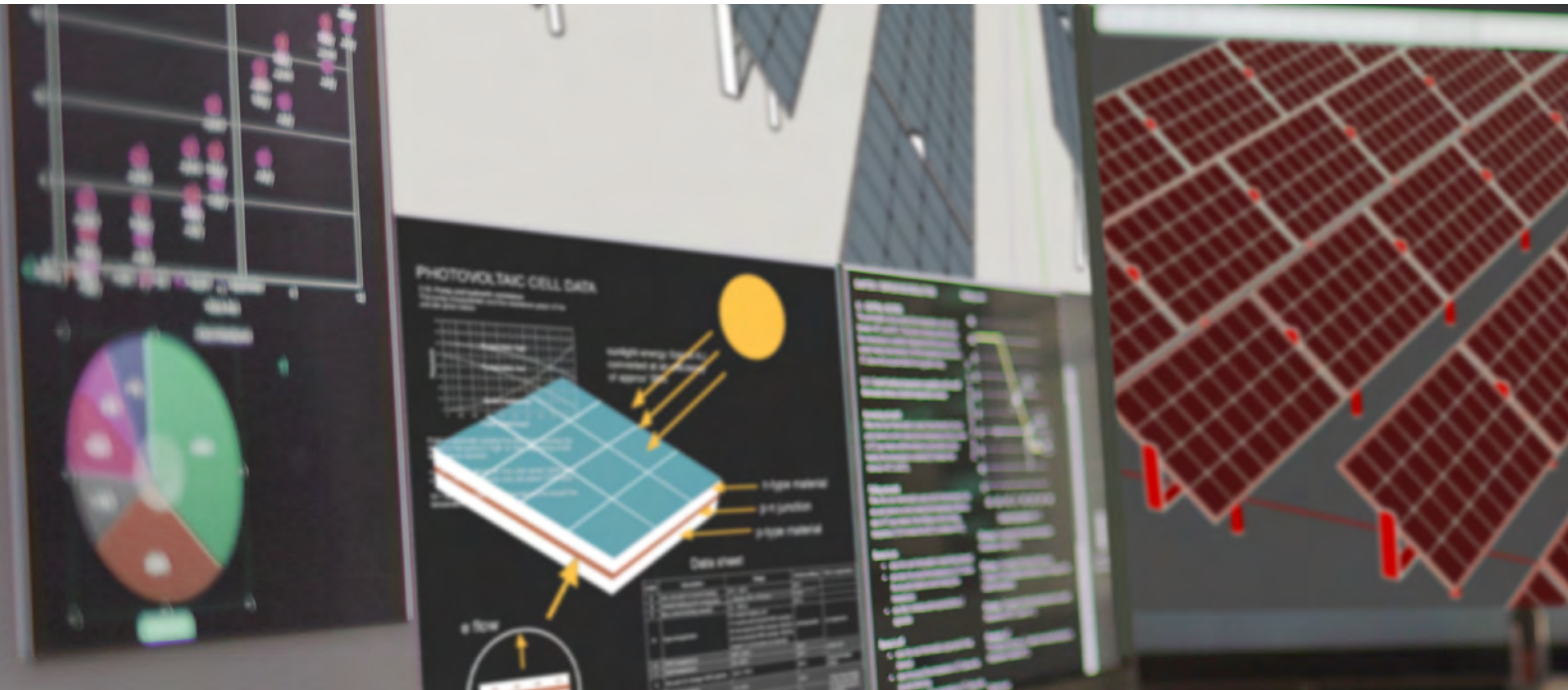
The 45X credit is a new production tax credit meant to encourage the production and sale of energy components in the United States, specifically related to solar, wind, batteries and critical mineral components. To be eligible for the credit, components must be produced in the United States or United States possession and sold by the manufacturer to unrelated parties.

The Department of Energy has released a **full list of eligible components as defined by the IRA**, with specific credit amounts that vary according to the component. Manufacturers can also monetize 45X credits through a direct payment from the IRS for the first five years. They may also transfer a portion or all of the credit to another taxpayer **through the direct transfer system**.

CONSIDERATIONS FOR MANUFACTURERS

Unlike the 48C credit, which requires manufacturers to submit an application for approval, the 45X credit is a statutory credit. While there is no limit on the amount of funding available for 45X, the credit will begin to phase out beginning in 2030 and be completely phased out after 2033. Manufacturers cannot claim 45X credits for any facility that has claimed a 48C credit. Forthcoming IRS guidance will clarify the relationship between the 48C and 45X credits should a manufacturer operate multiple facilities otherwise eligible for both credits.

Recently proposed regulations for the qualifying new clean vehicles credit (30D) should be considered. As outlined in the proposed regulations, vehicles eligible for the new clean vehicle credit must source a specific threshold of critical minerals that are (i) extracted or processed in the United States or in any country with which the United States has a free trade agreement or (ii) recycled in North America. In addition, the proposed regulations require that a certain threshold of battery components be manufactured or assembled in North America. Organizations should note that the 45X geographic requirements are narrower in scope, limiting production to the United States or United States possessions.



Qualified Commercial Clean Vehicles Credit (the 45W Credit)

KEY FACTS

The 45W credit is a new credit available to businesses and tax-exempt organizations that buy a **qualified commercial clean vehicle**. The credit can be worth up to $40,000; however, if the gross vehicle weight rating is under 14,000 pounds, the maximum credit allowed is $7,500. The value of the credit will be equal to the lesser of:

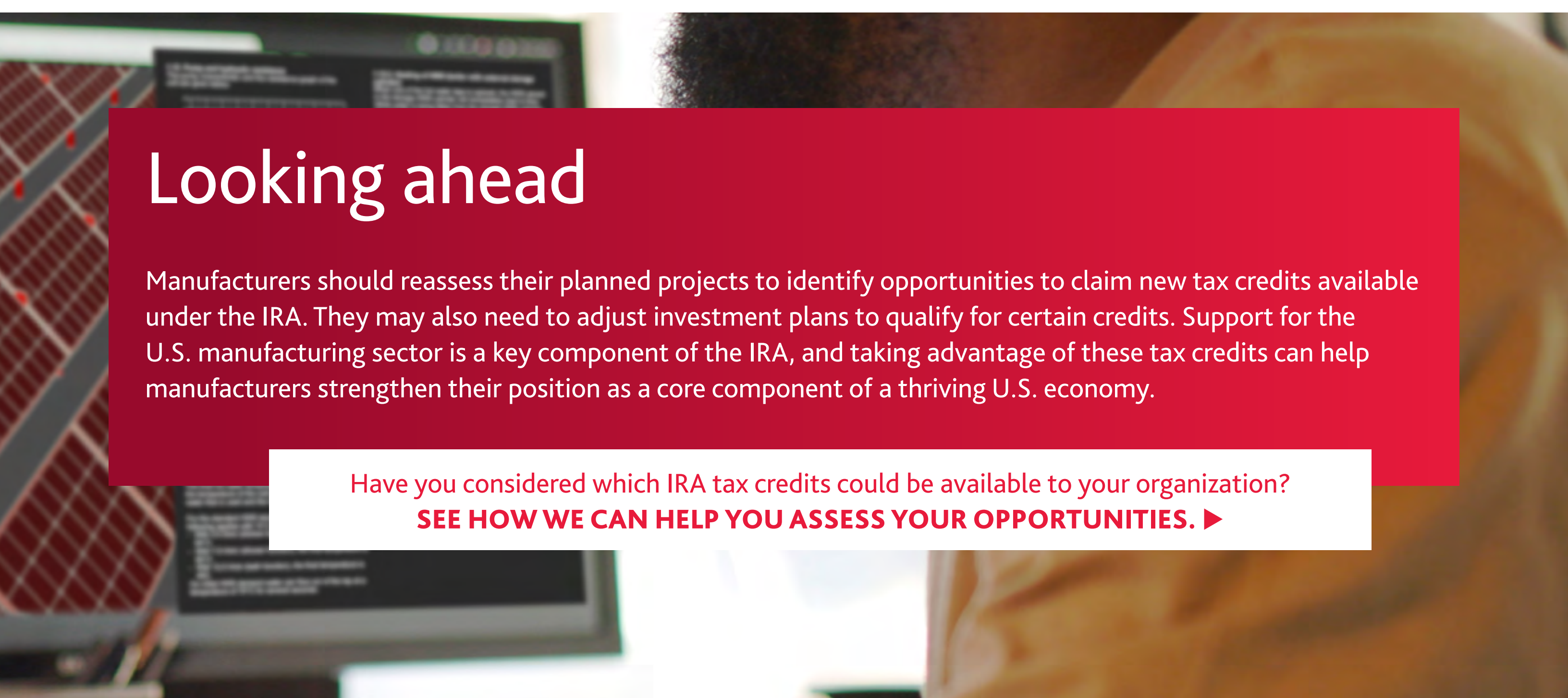
- 15% of the cost basis of the vehicle (30% if the vehicle is not powered by a gas or diesel internal combustion engine) or
- The incremental cost of the vehicle.

Incremental cost is generally defined as the excess of the purchase price of a vehicle over the price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine and that is also comparable in size and use.

There is no limit to the number of 45W credits an organization can claim, and the IRS is currently finalizing the credit claim form.

CONSIDERATIONS FOR MANUFACTURERS

Manufacturers looking to shift to an electric motor fleet or qualified mobile machinery can take advantage of the 45W credit to offset investment costs. However, there are several hurdles that could limit the usefulness of the 45W credit in the near term. In general, electric vehicles are more expensive than vehicles powered by fossil fuels. Given current economic uncertainty, some manufacturers may hesitate to make a significant investment in a new fleet if their existing vehicles do not yet need to be replaced. A lack of consistent, nationwide charging infrastructure as well as a lack of clarity on the definition of "mobile machinery" could also inhibit adoption of the credit.



Looking ahead

Manufacturers should reassess their planned projects to identify opportunities to claim new tax credits available under the IRA. They may also need to adjust investment plans to qualify for certain credits. Support for the U.S. manufacturing sector is a key component of the IRA, and taking advantage of these tax credits can help manufacturers strengthen their position as a core component of a thriving U.S. economy.

Have you considered which IRA tax credits could be available to your organization?
SEE HOW WE CAN HELP YOU ASSESS YOUR OPPORTUNITIES. ▶

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