INSIGHTS FROM THE BDO
HEALTHCARE & LIFE SCIENCES PRACTICES

How Healthcare and Biotech Can Benefit from New Tax Credits and Incentives

BDO

Healthcare organizations may be missing opportunities to align tax planning with business strategy.

Growth and evolution are at the heart of healthcare and life sciences companies. That's why many organizations in these industries are also pursuing alternative energy sources as part of their overall business goals or net-zero strategy. But as these organizations grow and change, their approach to tax planning often does not, which could lead to missed opportunities. From life sciences organizations considering real estate options that prioritize renewables to healthcare systems pursuing battery storage and beyond — the investments that your company is making in clean energy infrastructure could be eligible for credits and incentives to help offset the cost of these projects.

Inflation Reduction Act Opportunities

MONETIZATION OPPORTUNITIES

While traditional tax equity investing will still be preferable for some organizations, the Inflation Reduction Act of 2022 (IRA) offers two new options for credit monetization: Direct payments and transferability provisions.

TRANSFERABILITY PROVISIONS

Most organizations will be eligible for and benefit from transferability provisions.

Companies that generate credits can elect to transfer their credits to other taxpayers. Income generated from transferring credits is not taxable.

DIRECT PAYMENTS

Tax-exempt companies, including government entities, are eligible for direct payments of credits, rather than having to wait to apply for credits during regular tax filing.

Some examples of eligibility for direct pay include investments in carbon capture, hydrogen production and advanced energy manufacturing.

IRA implications for developing and investing in energy transition opportunities

Before the IRA was enacted, healthcare and life sciences organizations had to enter into structured investment vehicles with project developers to have the ability to monetize energy credits. This provided developers with an influx of cash, while investors received allocations of credits and other tax benefits. The process was adopted by many organizations but created a significant and expensive administrative burden that tied parties together for several years.

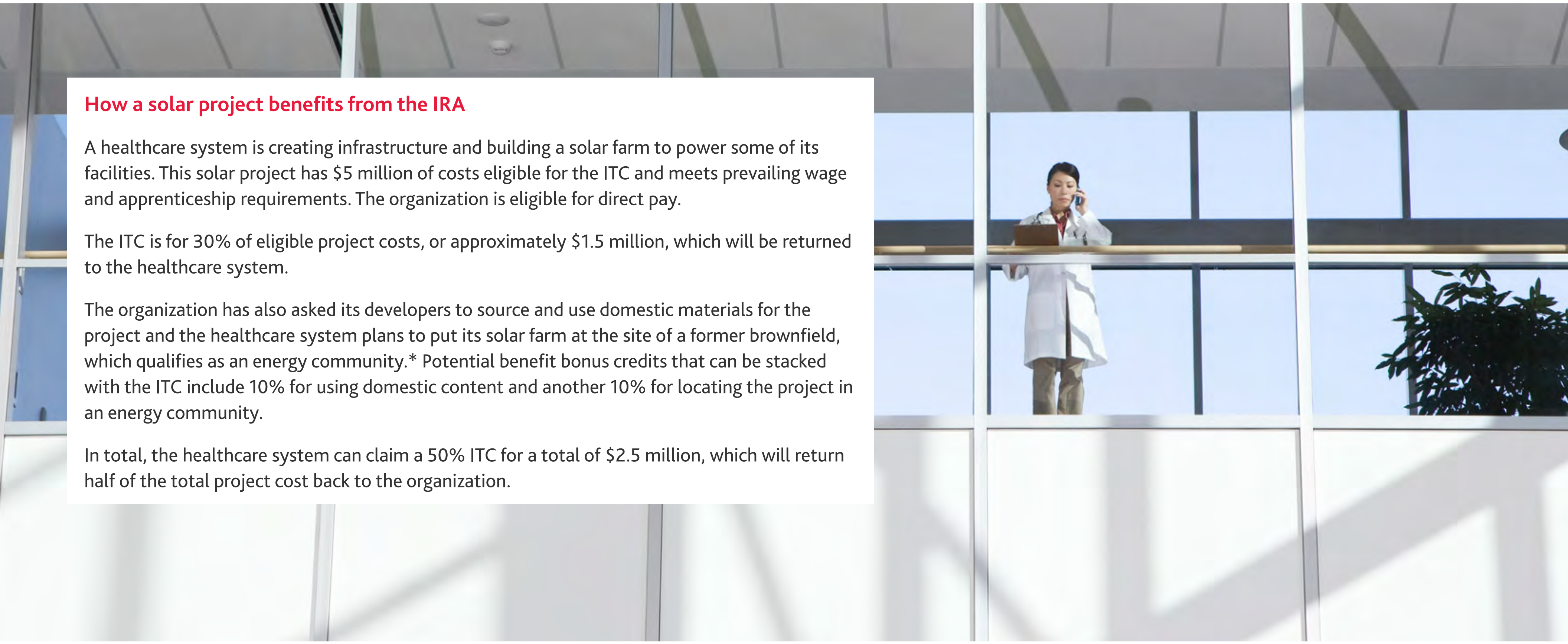
PRODUCTION & INVESTMENT TAX CREDITS

The IRA created new credits and incentives and restructured previously available credits to enhance the benefits they provide. As a result, both production tax credits (PTCs) and investment tax credits (ITCs) were restored to full rates and extended for certain projects.

- Construction for eligible projects must begin before January 1, 2025
- Credits are subject to prevailing wage and apprenticeship requirements
- Bonus credits are available for wind and solar projects in low-income communities and for energy storage projects in energy communities*
- Solar projects have the option to claim either PTC or ITC credits and ITCs are expanded to include energy storage, biogas and microgrid properties

*What's an energy community?

Energy communities are three types of geographies defined by the **IRS** that face challenges in reducing or ceasing fossil fuels. These include brownfields, coal communities and metropolitan or non-metropolitan statistical areas where, "0.17 percent or greater direct employment or 25 percent or greater local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas and has an unemployment rate at or above the national average unemployment rate for the previous year."



How a solar project benefits from the IRA

A healthcare system is creating infrastructure and building a solar farm to power some of its facilities. This solar project has $5 million of costs eligible for the ITC and meets prevailing wage and apprenticeship requirements. The organization is eligible for direct pay.

The ITC is for 30% of eligible project costs, or approximately $1.5 million, which will be returned to the healthcare system.

The organization has also asked its developers to source and use domestic materials for the project and the healthcare system plans to put its solar farm at the site of a former brownfield, which qualifies as an energy community.* Potential benefit bonus credits that can be stacked with the ITC include 10% for using domestic content and another 10% for locating the project in an energy community.

In total, the healthcare system can claim a 50% ITC for a total of $2.5 million, which will return half of the total project cost back to the organization.

CLEAN ENERGY PRODUCTION CREDITS

New technology-neutral credits are available for qualified zero-emission facilities that either generate or store clean electricity and begin construction after December 31, 2024. The credits are available for 10 years and carry opportunities to stack on bonuses.

- Both PTC and ITC credits are available
- The PTC credit is available for clean electricity produced at eligible facilities for which the greenhouse gas (GHG) emissions rate is not greater than zero and is sold to an unrelated person, or sold, consumed or stored by the taxpayer
- The ITC credit is available for a qualified investment in an electricity-generating facility or energy storage property and for which the GHG emissions rate is not greater than zero

Credits and Capitalization

While research and development (R&D) and research and experimentation (R&E) credits are not new, organizations should continually review their eligibility for these credits and determine how credits may impact their overall business strategies and planning.

R&D CREDITS

Any organization working to develop a new or improved product, process or software platform might be eligible for federal and state R&D tax credits equaling up to 25% of qualified spend. A variety of activities in healthcare and life sciences meet the criteria.

For healthcare organizations, eligible activities include:

- Software applications for telemedicine or that enhance the delivery of healthcare management services, as well as electronic medical record software solutions, including electronic health record (EHR) systems
- Algorithims to enhance fundamental or underlying computer processes such as new or improved methods of sorting, searching or compressing healthcare data
- Internet of Medical Things (IoMT) devices to monitor, collect, analyze and transmit healthcare data, as well as artificial intelligence to streamline or automate various tasks such as provider data input, AP/AR, claims approval/denial, etc.

Medical device manufacturers may qualify for credits for:

- Manufacturing process improvements for the production of saleable medical devices such as improvements to efficiency, performance or reliability of the manufacturing process
- Development of new medical devices and/or components specifically for medical devices

R&E CAPITALIZATION

The 2022 changes to the **Tax Cuts and Jobs Act (TCJA)** modified Internal Revenue Code Section 174 rules for expenditures related to R&E. The new rules require taxpayers to capitalize and amortize specific R&E expenditures over a period of five years for domestic research and 15 years for foreign research. The rules apply for 2022 taxes.

- Organizations that haven't done so already should evaluate their analysis and reporting of Section 174 expenditures to determine whether the new guidance applies, or if they need to take additional action
- The new R&E capitalization changes include an increase in taxable income, which impacts a broad spectrum of tax matters, including but not limited to:
  - **Foreign-derived intangible income (FDII) deduction:** FDII income from the use of a company's intellectual property and deduction-eligible income may increase due to capitalized R&E expenditures
  - **Section 163(j) interest limitation:** Increased taxable income from the capitalization of R&E expenditures may result in a reduction of disallowed business interest expenses under Section 163(j)
  - **Global intangible low-taxed Income (GILTI):** The requirement to capitalize and amortize foreign R&E expenses over 15 years may have a significant impact on the amount of income that forms part of the calculation

Healthcare and life sciences organizations have ample opportunities to benefit from new tax reform: don't leave cash on the table.

The IRA represents the most significant recent opportunity for healthcare and life sciences organizations to update their tax structuring, credits and incentives — but they should also make sure not to overlook R&D and R&E credits. While the industry is, by nature, continually involved in research and development and experimentation, it's easy to forget that investments in new, alternative sources of energy or storage for energy may also qualify for tax credits. Organizations seeking opportunities to lower their carbon footprint or mitigate risk to their power systems and operations may benefit from the new provisions in the IRA.

People who know Life Sciences and Healthcare, know BDO.

www.bdo.com/**life-sciences**
www.bdo.com/**healthcare**

Ready to determine which tax credits you might be missing out on? **Contact a BDO professional today.**

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. www.bdo.com