



Inflation Reduction Act

48C Advanced Energy Project Credit



What is the Section 48C tax credit?

In order to foster investment and job creation in clean energy manufacturing, the American Recovery and Reinvestment Act of 2009 (ARRA) included a tax credit for investments in manufacturing facilities for clean energy technologies. The qualified investment for any taxable year is the basis of eligible property placed in service by the taxpayer during such taxable year that is part of a qualifying advanced energy project (QAEP). The program was initially capped at \$2.3 billion in tax credits and was oversubscribed. On December 12, 2013, Phase II Selections were launched to utilize \$150 million in tax credits that were not used by the previous awardees.

The *Inflation Reduction Act of 2022* allows the Secretary of the Treasury to allocate an additional \$10 billion in credits, with \$4 billion of the allocation dedicated to projects in energy communities.

An energy community is a census tract or adjacent area in which a coal mine has closed after 1999 or a coal-fired electric generating unit has been retired after 2009.



What is the eligible property?

The term “eligible property” means any property:

That is necessary for the production of qualified energy property,

That is:

- Tangible personal property, or
- Other tangible property (not including a building or its structural components), but only if such property is used as an integral part of the qualified investment credit facility, and

With respect to which depreciation (or amortization in lieu of depreciation) is allowable.

- Adds projects to re-equip, expand, or establish an industrial facility for the processing, refining, or recycling of critical minerals
- Expands QEP to include hydroelectric property; all EV or fuel cell vehicles and associated components, materials, and charging or refueling infrastructure; and certain hybrid vehicles and components.

Initial timing of the projects

The statute authorizing the 48C tax credits allows projects that are completed on or after February 17, 2009, when the ARRA was signed. Projects must have been commissioned before February 17, 2013. The statute favors the selection of projects that are in service early. As a result, some of the selected projects already have been completed and begun operation.

What is a qualified energy property?

- Solar, wind, geothermal, or other renewable energy equipment
- Electric grids and storage for renewables
- Fuel cells and microturbines
- Energy storage systems for electric or hybrid vehicles
- Carbon dioxide capture and sequestration equipment
- Equipment for refining or blending renewable fuels
- Equipment for energy conservation, including lighting and smart grid technologies
- Plug-in electric vehicles (EVs) or their components, such as electric motors, generators, and power control units
- Other advanced energy property designed to reduce greenhouse gas emissions may also be eligible as determined by the Secretary of the Treasury.

Under the new law, the credit is broadened in a number of ways:

- Adds facilities that recycle qualified energy property (QEP)
- Adds projects to re-equip an industrial facility with equipment designed to reduce emissions by at least 20 percent through carbon capture or other technologies

Applicant pool in 2009

The application deadline for the 48C program was October 16, 2009. Over 500 applications were received with tax credit requests totaling over \$8 billion. The 48C applications pool was distributed across many clean energy technologies and was geographically distributed to more than 40 states.

Review criteria in 2009

- Greatest domestic job creation (direct and indirect)
- Greatest net impact in avoiding or reducing air pollutants or emissions of greenhouse gases; lowest levelized cost of energy
- Greatest potential for technological innovation and commercial deployment
- Shortest project time from certification to completion

NEW: The Inflation Reduction Act of 2022 requires that, in order for a project to be eligible for the 30% advanced energy project credit, taxpayers must satisfy:

1

Prevailing wage requirements: Taxpayers must ensure that any laborers and mechanics employed by contractors and subcontractors are paid prevailing wages during construction and, in some cases, for the alteration and repair of such project for a period of time after the project is placed into service. If a taxpayer fails to satisfy these requirements, then the taxpayer may cure the failure by compensating each worker the difference between wages paid and the prevailing wage, plus interest, in addition to paying a \$5,000 penalty to the Treasury for each worker paid below the prevailing wage during the tax year. If the failure to pay prevailing wages is due to intentional disregard, then the taxpayer must pay three times the pay differential to laborers and pay a \$10,000 penalty per worker within 180 days of the date of determination of noncompliance.

2

Apprenticeship requirements: Taxpayers must ensure that no fewer than the applicable percentage of total labor hours are performed by qualified apprentices. The applicable percentage for purposes of this requirement would be 10 percent for projects for which construction begins in 2022. This rate would be increased to 12.5 percent in 2023, and 15 percent thereafter. In the event a taxpayer fails to satisfy these requirements, the taxpayer may cure the failure by paying a \$50 penalty for each labor hour for which the requirement is not satisfied (\$500 if the government determines that the failure to follow the requirement was due to intentional disregard). There is also an exemption process in the event there is a lack of available qualified apprentices.

Is the credit refundable?

NEW: Taxpayers could elect to transfer the credit to an unrelated taxpayer. In addition, certain tax-exempt or government entities may elect for the credit to be considered a direct payment of tax and essentially refundable.



Other energy tax provisions provided in IRA

Extensions/modifications to:

- Section 45 Production tax credits and Section 48 investment tax credits for wind, solar, geothermal, hydropower, etc.
- Section 45Q Credit for carbon oxide sequestration (increased rates)
- Section 40 second-generation biofuel credit
- Section 40A and 6426 Biodiesel and renewable diesel; biodiesel mixture credit; alternative fuel credit
- Section 179D Energy efficient commercial buildings deduction
- Section 30D & Section 25E for Electric Vehicles
- Section 30C EV charging stations

New credits for:

- Section 45U Zero-emission nuclear power production credit
- Section 40B Sustainable aviation fuel
- Section 45V Clean hydrogen production credit
- Section 45W Qualified commercial clean vehicles

- Section 45X Manufacturing credit for solar and wind components, batteries and critical minerals
- Section 45Y and 48E Technology neutral clean electricity production and investment credits
- Section 45Z Clean fuel production credit

A holistic approach

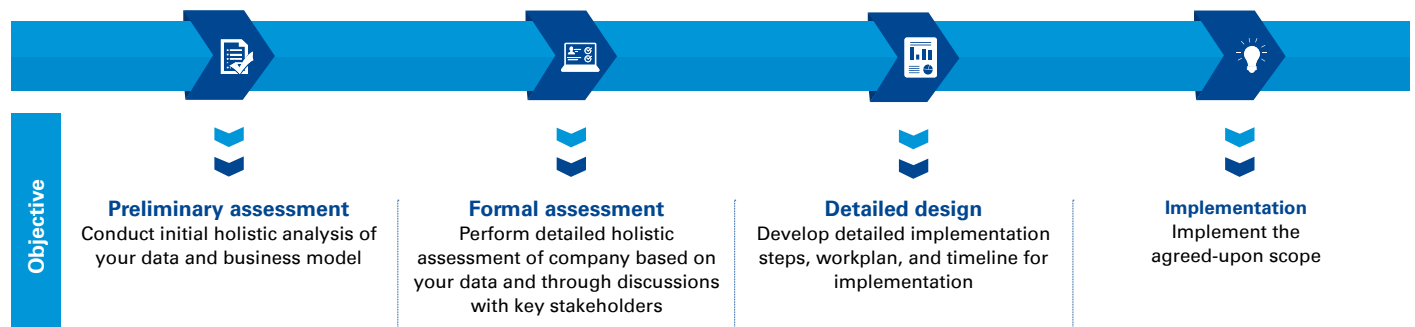
With uncertain economic conditions and an ever-changing business environment, it is imperative to consider all federal, state, and global tax credits and incentives, some of which may be supplementary to the Section 48C tax credit. Examples may include federal, state, and global tax credits and incentives for research and development, capital investment spend, job creation, training, and more.

In order to generate and monetize these benefits, it is important for your organization to identify, understand, and prioritize the appropriate incentives given your financial and strategic goals. Such an undertaking is often time consuming and complex but can result in significant benefits. Our KPMG network allows you access to our practitioners who specialize in credits and incentives. Our capabilities help you to design and implement an effective incentives strategy given your business needs.

We allow a flexible, phased approach from assessment to delivery to identify, prioritize, and implement credit and incentive opportunities.

Approach from assessment to implementation

The timeline, from our preliminary assessment through implementation, as well as the project deliverables, will be tailored based on the size of your company and the number of areas you wish to cover.



Maintenance, monitoring, training: The value that KPMG brings when performing a holistic review does not stop after implementation. Beyond the final deliverables and implementation, we will implement ongoing efficiency monitoring (as necessary and agreed upon) and will roll out training as appropriate to all users.

Why KPMG?

An established local team with deep knowledge of industry, location, and tax issues will work closely with dedicated global, national, and state and local specialists who bring fresh perspectives on planning opportunities and assist in obtaining these potential benefits. The local team will serve as the primary point of contact to coordinate all discussions and requests with other members of our national and global network.

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