In depth

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Accounting for Inflation Reduction Act energy incentives

What's inside

At a glance

In August 2022, the Inflation Reduction Act (the IRA) was signed into law. In addition to introducing a new corporate alternative minimum tax and an excise tax on stock buybacks, the IRA provides for climate and clean energy tax credits, initially estimated to total $370 billion, but most recent estimates by the Joint Committee on Taxation indicate the total is closer to $660 billion.

This *In depth* focuses on the accounting and disclosure implications of the climate and clean energy incentives included in the IRA primarily from the perspective of the entity earning the credit. It also addresses the evolving area of the buyer's accounting for the purchase of transferable credits at a summarized level. For further discussion of other aspects of the IRA, see our In depth, *Accounting for the Inflation Reduction Act and the CHIPS Act*.

Climate and clean energy provisions

The IRA provides significant extensions, expansions, and enhancements of numerous energy-related tax credits that relate to investment in qualifying property and production of qualifying energy or energy-related products. These credits are intended to catalyze investments by corporates in decarbonizing energy generation and transportation; building energy efficient, low-carbon manufacturing; and carbon capture.

Most of the credits are available at either a base rate or a significantly larger bonus rate (five times the base rate) if a taxpayer meets prevailing wage and apprenticeship requirements. Additional credits may be available for meeting domestic content or location requirements; however, for certain credits, the domestic content or location requirements must be met to be eligible for the base credit. Certain of these credits may be monetized through a "direct pay" option from the government, and most may be transferred for cash to another taxpayer.

The following table summarizes the credits, how they may be monetized, and the availability of a bonus rate or other increases to credit rates. More information about each credit, including eligibility for the base credit and the bonus rate or increased credit rate requirements, is detailed in Appendix 2.

	Monetization		Bonus rates and increased credits		
Credit/tax benefit	Direct pay	Transferable	Wage / apprenticeship	Domestic content	Location
Alternative fuel vehicle refueling property credit (Section 30C)	Yes - *Limited entities*	Yes	Yes	No	No - *Certain requirements*
Renewable electricity production credit (Section 45)	Yes - *Limited entities*	Yes	Yes	Yes	Yes
New home energy efficiency credit (Section 45L)	No	No	Yes (2)	No	No
Credit for carbon oxide sequestration (Section 45Q)	Yes (1)	Yes (1)	Yes	No	No
Zero-emission nuclear power credit (Section 45U)	Yes - *Limited entities*	Yes	Yes (2)	No	No
Clean hydrogen production credit (Section 45V)	Yes (1)	Yes (1)	Yes	No	No
Qualified commercial clean vehicles credit (Section 45W)	Yes - *Limited entities*	No	No	No	No
Advanced manufacturing production credit (Section 45X)	Yes (1)	Yes (1)	No	No - *Certain requirements*	No
Clean electricity production credit (Section 45Y)	Yes - *Limited entities*	Yes	Yes	Yes	Yes
Clean fuel production credit (Section 45Z)	Yes - *Limited entities*	Yes	Yes	No - *Certain requirements*	No
Energy investment tax credit (Section 48)	Yes - *Limited entities*	Yes	Yes	Yes	Yes
Advanced energy project credit (Section 48C)	Yes - *Limited entities*	Yes	Yes	No	No
Clean electricity investment credit (Section 48E)	Yes - *Limited entities*	Yes	Yes	Yes	Yes

☐ Yes ☐ Yes - *Limited entities* ☐ No

(1) The direct pay option is available to an "applicable entity," as defined. All other taxpayers can make an election in the year the facility is placed in service, to apply direct pay for five years. A taxpayer may revoke its direct pay election, which is final and would apply starting in the year of the revocation. The transferability provision is available for periods that direct pay is not elected.

(2) These credits include a prevailing wage requirement, but do not require the use of apprentices.

Monetization of credits

Certain of the credits have a direct-pay election, which allows an “applicable entity,” as defined, to receive cash from the government regardless of whether the entity has an income tax liability. What constitutes an “applicable entity” varies depending on the credit, but for most credits, the population of taxpayers eligible for the direct-pay option is fairly narrow and generally limited to tax exempt and governmental entities as well as rural electric cooperatives.

Taxpayers who are not eligible for the direct-pay option can instead opt to transfer (i.e., sell) any of the credits that are transferable to another taxpayer subject to the following provisions.

- The transfer may be for all or any portion of a credit.
- Credits may only be transferred once (i.e., the transferee may only apply the credit to its income tax liability).
- The transferee must pay for the credit in cash.
- The cash received in exchange for the credits transferred is not includable in taxable income of the transferor nor deductible by the transferee.

The value of the credit in a transfer scenario is expected to be less than the value in a direct pay scenario because the sale price would likely be less than the full value of the credit, allowing a margin for the buyer of the credits.

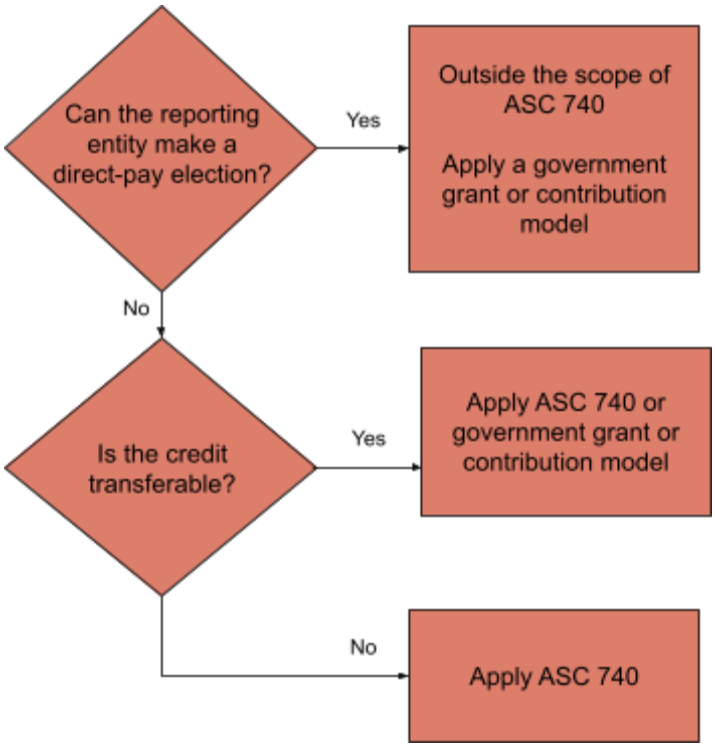
Three of the credits — Credit for carbon oxide sequestration (Section 45Q), Clean hydrogen production credit (Section 45V), and Advanced manufacturing production credit (Section 45X) — contain a direct-pay option that is available to all taxpayers for the initial five year period. These credits are otherwise able to be transferred. The specific provisions are detailed in the discussion of individual credits in Appendix 2.

The direct-pay option for applicable credits is available for tax years beginning after December 31, 2022. The effective dates of other provisions and credits are discussed in further detail in Appendix 2.

Accounting considerations

Accounting for credits included in the IRA may require reporting entities to make certain policy elections based on their specific facts and circumstances and the nature of the credits received. While the credits are described in the Internal Revenue Code and may be claimed on an income tax return, the credits may not always be in scope of ASC 740, *Income taxes.* The manner in which many of the credits in the IRA may be monetized, including direct pay, make some of these credits more akin to government grants. Therefore, each credit must be analyzed to determine whether it should be accounted for under ASC 740 or whether, in substance, it constitutes receipt of a grant or other benefit from the government. The determination of whether a tax credit is within the scope of ASC 740 will affect the income statement presentation of the benefit from the credit (i.e., whether the credit is recorded as part of pre-tax income or in the income tax provision) and may also impact the timing of recognition and measurement of the amount of the benefit.

The following flowchart illustrates the considerations in determining the appropriate accounting model to apply to the credits in the IRA for entities with activities subject to income tax. A reporting entity will need to consider the features of each credit for which it is eligible in determining the accounting policy for each type of credit.



A general presumption in GAAP is that the same accounting principles should be applied to similar transactions. However, the fundamental characteristics of a direct-pay or refundable credit are different from those of a transferable credit. Direct-pay credits should not be accounted for under ASC 740 because their realization does not depend on taxable income. Thus, for those credits, a reporting entity will need to determine an appropriate accounting model. For transferable credits, the FASB staff has indicated that they believe the most appropriate accounting model is ASC 740; however, other models may be appropriate. A reporting entity that receives both direct-pay and transferable credits will need to develop an accounting policy for each type of credit. Depending on the differences between different types of credits, it may be appropriate for some to be accounted for under ASC 740 and some outside of the income tax guidance, but similar credits should be accounted for similarly. In some circumstances, it may be appropriate to apply the same model (for example, a government grant model through analogy to IAS 20) to a credit that is both refundable and transferable. Once elected, the model(s) should be applied consistently each period.

Once a reporting entity determines the appropriate accounting model (e.g., income tax model, contribution model, or a government grant model), it may also need to select accounting policies for recognition, measurement, and presentation of the credits depending on the nature of the specific credits and which overall model the entity is applying. While the available accounting policy elections will differ depending on the model elected, each policy would be applied consistently to credits with similar characteristics. In addition, a reporting entity should evaluate whether accounting policies for credits in the IRA are consistent with any policies applied to tax credits or other government incentives previously received.

A reporting entity may have more than one subsidiary obtaining credits under the IRA. Generally, accounting policies should be applied consistently throughout the consolidated financial statements. However, there may be circumstances when it may be acceptable to justify application of different accounting policies for different businesses within the same consolidated financial statements. For example, a reporting entity may have a regulated utility subsidiary with dissimilar operations or dissimilar assets or transactions than a non-regulated subsidiary.

The following sections address accounting considerations for direct-pay and transferable credits under the following scenarios:

- Direct-pay credits accounted for by analogy to IAS 20
- Transferable credits accounted for under ASC 740
- Transferable credits accounted for by analogy to IAS 20

Direct-pay credits

Direct-pay credits included in the IRA allow a company to receive a cash payment from the government regardless of whether the company has an income tax liability. Because realization of the benefit does not depend on the entity's ability to generate taxable income, we believe such a credit is outside the scope of ASC 740.

When a credit is not accounted for under ASC 740, a reporting entity will need to determine the appropriate accounting framework to apply based on the nature of the credit and the conditions on which its realization is predicated.

If a not-for-profit entity receives a direct-pay credit under the IRA, it would follow the guidance in ASC 958-605, *Not-for-profit entities–Revenue recognition*, which contains the US GAAP on contribution accounting, including guidance on evaluating whether transfers of assets from a government are exchange or nonexchange transactions.

Although the FASB has a project on the accounting for government grants on its research agenda, there is currently no US GAAP that explicitly addresses the accounting by business entities for government assistance. ASC 105, *Generally Accepted Accounting Principles*, however, describes the framework for developing an accounting policy in the absence of US GAAP specific to a particular transaction. ASC 105-10-05-2 instructs reporting entities to first look at guidance for a similar transaction or event within US GAAP and apply that guidance by analogy. If no guidance for similar transactions is identified, a reporting entity may consider nonauthoritative guidance from other sources (e.g., IFRS® Accounting Standards).

A business entity may apply the guidance in ASC 958-605 by analogy although the scope excludes transfers of assets from governments to business entities. Alternatively, a US GAAP reporter that is a business entity may apply IAS 20, *Accounting for Government Grants and Disclosures of Government Assistance,* by analogy.

In determining the appropriate accounting for direct-pay tax credits, a reporting entity should first consider whether it has an existing accounting policy for similar transactions. For example, some reporting entities may have received similar tax incentives under either the American Recovery and Reinvestment Act of 2009 (ARRA), the Emergency Economic Stabilization Act of 2008, or from state governments.

The following sections discuss the accounting for direct-pay credits by analogy to IAS 20. Reporting entities that elect to apply ASC 958-605 should refer to chapters 6, 7, and 8 of our *Not-for-profit entities* guide for details regarding the accounting for contributions received under ASC 958-605. Figure FSP 3-2 in our *Financial Statement Presentation* guide summarizes the key differences between ASC 958-605 and IAS 20.

Accounting for direct-pay credits by analogy to IAS 20

Initial recognition of a government grant under IAS 20 is dependent on the specific conditions of the grant. Under IAS 20, paragraph 8, a government grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attached to it and that the grant will be received.

IAS 20 does not define “reasonable assurance;” however, US GAAP preparers analogizing to IAS 20 generally consider the threshold to be similar to the notion of “probable” as used in ASC 450-20, *Loss Contingencies*. ASC 450-20-20 defines “probable” as “the future event or events are likely to occur,” which, in practice, is generally considered a likelihood of at least 75%.

Judgment is often required in assessing whether there is reasonable assurance the reporting entity will comply with conditions attached to a government grant. Reporting entities should identify, understand, and evaluate all conditions of the government grant to determine whether the reasonable assurance threshold has been met.

Many of the credits in the IRA include specific conditions that must be met to qualify for the credit. For example, the renewable electricity production credit requires construction to begin before January 1, 2025 and the carbon oxide sequestration credit requires a direct air capture facility to capture at least 1,000 metric tons of carbon dioxide per year. Examples of other conditions that impact the amount determined for various IRA credits include the following:

- Prevailing wages must be paid for the duration of the construction project and for each year during the credit recapture period.
- Apprenticeship requirements must be met during the construction period.
- Facilities must be placed into service within an “energy community.”
- Electricity produced must be sold to an unrelated party.

Certain IRA credits also have ongoing requirements related to labor and the use of domestic materials. Failure to comply with these conditions may subject the taxpayer to recapture or return of the credit, penalties, or a requirement to make additional payments to employees, depending on the specific circumstances that caused noncompliance.

In determining whether the reasonable assurance threshold is met, a reporting entity should consider its experience in complying with similar conditions and if its compliance could be impacted by factors that are outside

of its control. Reporting entities will also need to continue to monitor compliance with any ongoing requirements.

Once the recognition threshold is met, a reporting entity will need to determine the amount, timing, and pattern of income recognition of the government grant.

We believe it would be appropriate to measure a direct pay credit from the US government at its notional amount. If the recognition threshold is met before payment is received, the reporting entity should record a receivable. Conversely, if funds are received in advance of meeting the recognition threshold, the reporting entity should record a liability.

The timing and pattern of income recognition of a direct-pay credit will depend on whether the grant is related to an asset or to income.

Excerpt from IAS 20, paragraph 3

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.

Guidance regarding the timing and pattern of income recognition is discussed in IAS 20, paragraph 12 and paragraph 17.

IAS 20, paragraph 12

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

IAS 20, paragraph 17

In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Direct-pay credits related to income should be recognized in income over the period for which the credit is intended to compensate the reporting entity.

A direct-pay credit for a specific expense would generally be recognized in income in the same period as the related expense. As discussed in IAS 20, paragraph 20, a government grant for losses or expenses already incurred and for which no future related costs are expected or required is generally recognized in the period in which the financial assistance becomes receivable.

Direct-pay credits related to assets should be recognized in income over the expected useful life of the related asset – i.e., the period over which the asset's cost basis is depreciated. This is accomplished by making an accounting policy election to either reduce the cost of the asset by the amount of the government grant, or recognize deferred income (or a similar liability), which is subsequently amortized into income as the asset is depreciated.

If the terms of the credit do not clearly specify the expenditure to which it relates, judgment may be required to identify the related expense(s). Some IRA credits may be part of a broader program with a number of conditions attached. Certain credits may also contain ongoing compliance conditions that may involve different types of costs. As the timing of income recognition depends on the timing of recognition of the related costs, a reporting entity will need to consider whether the benefit of a credit needs to be allocated to different costs as discussed in IAS 20, paragraph 19.

Presentation of direct-pay credits

Given the lack of specific guidance under US GAAP on the presentation of government assistance, many business entities follow the presentation guidance in IAS 20. Reporting entities should also consider the principles of ASC 205, *Presentation of Financial Statements*, and SEC Regulation S-X, if applicable, which provide the baseline authoritative guidance for the presentation of financial statements for US GAAP reporting entities.

Presentation of government grants related to assets

As summarized in the table below, reporting entities will need to make accounting policy elections for the presentation of government grants related to assets. The policies should be consistently applied to similar types of government grants and disclosed if material.

Financial statement presentation and policy elections for government grants related to assets when analogizing to IAS 20

Balance sheet (policy election)	Income statement
Reduction to cost basis of the related asset	Implicit reduction of depreciation or amortization expense
Deferred income (liability)	*Policy election:* • Separate presentation • Presentation under a general heading such as other income • Presentation as a reduction of depreciation or amortization expense

Balance sheet (IAS 20)

When presenting government grants related to assets in the balance sheet, IAS 20 allows reporting entities to make an election to either reduce the cost basis of the related asset or reflect the government grant as deferred income.

IAS 20, paragraph 24

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Both methods are acceptable as long as the selected method is consistently applied and disclosed, if material.

Income statement (IAS 20)

Government grants related to an asset will be recognized into income over the useful life of the asset.

A government grant that is presented as a reduction in the carrying amount of the asset will reduce the depreciation or amortization expense for that asset in the income statement.

IAS 20 does not explicitly address presentation of income from a grant related to an asset that is initially reflected as deferred income in the balance sheet. Given the lack of prescriptive US GAAP on income statement presentation, in general, multiple presentation options exist, including presenting the income in a separate line item or under a general heading such as other income. It would also be acceptable for an entity to present the amortization of the deferred income as a reduction to the related asset's depreciation or amortization expense. The presentation alternative selected is an accounting policy that should be applied consistently.

Statement of cash flows

Entities reporting under US GAAP should follow the principles of reporting cash flows contained in ASC 230, *Statement of Cash Flows*.

The classification of direct-pay credits in the statement of cash flows depends on the specific facts and circumstances of the credits received. For direct-pay credits related to assets, when the balance sheet and income statement reporting reflect these grants as, in substance, a subsidy for the purchase of the asset, the cash inflow, in turn, will follow the cash flow classification of the related asset purchase, which is generally an investing cash outflow (i.e., the grant would essentially reduce the capital expenditure). In certain situations, there may be more than one acceptable way to classify the cash inflows from government grants. In these cases, the reporting entity will need to make an accounting policy election that should be applied consistently.

Presentation of government grants related to income

Balance sheet (IAS 20)

Under IAS 20, grants related to income are recognized in the income statement when the recognition threshold (reasonable assurance) has been met and the related expenses are incurred. A receivable or liability for a government grant may be recognized on the balance sheet due to differences in the timing of receipt from the government and when the entity meets the conditions for recognition. If the entity meets the recognition threshold prior to receipt, it would recognize a receivable.

Income statement (IAS 20)

Without being prescriptive, IAS 20 discusses a number of income statement presentation alternatives for grants related to income (i.e., as a separate line item or under a general heading such as other income, as a reduction to the related expense), any of which may be acceptable as long as it is consistently applied.

Statement of cash flows

Entities reporting under US GAAP should follow the principles of reporting cash flows contained in ASC 230.

The classification of a government grant in the statement of cash flows depends on the specific facts and circumstances of the grant. For grants related to income, the cash inflow will generally be classified as an operating cash flow. In certain situations, there may be more than one acceptable way to classify the cash inflows from government assistance. In these cases, the reporting entity will need to make an accounting policy election that should be applied consistently.

Transferable credits

US GAAP does not directly address how to account for credits that a reporting entity may either use to reduce an income tax payment or sell for cash to another taxpayer. As it relates to the IRA credits and their specific transferability provisions, we understand that the FASB staff believes it is most appropriate to account for such credits as part of the provision for income taxes under ASC 740, regardless of whether the reporting entity that generates the credit claims the credit on its tax return or if that entity sells the credit to another taxpayer.

If a reporting entity accounts for transferable credits, including any difference between the proceeds received upon transfer and the notional value of the credits as part of its income tax provision, we believe it would be appropriate, but not required, for the reporting entity to consider the expected sale proceeds as a source of realization in its valuation allowance assessment.

Because there is no directly applicable GAAP, the FASB staff acknowledges that accounting for transferable credits outside of ASC 740, e.g., accounting for transferable credits similar to refundable or direct-pay credits by accounting for the entire credit outside of the tax line, may also be acceptable. We believe a reporting entity that generates transferable tax credits should evaluate its specific facts and circumstances and make an accounting policy

election. Once a model is selected, it should be applied consistently to similar credits regardless of whether the reporting entity ultimately uses the credits to reduce its own tax liability or transfers the credits to another taxpayer.

The following table summarizes the key differences in accounting for the receipt of a transferable credit under ASC 740, both as an investment tax credit (ITC) or non-ITC, or by analogy to IAS 20.

Summary of accounting for tax credits under ASC 740 and IAS 20 (by analogy)

Accounting Element	ASC 740 (ITC)	ASC 740 (non-ITC)	IAS 20 (Asset grant)	IAS 20 (Income grant)
Initial recognition	When all requirements are met and the entity either (1) uses the credit to reduce income taxes otherwise currently payable, or (2) recognizes a deferred tax asset for an allowable carryforward (subject to valuation allowance considerations)		When there is reasonable assurance that the entity will comply with applicable conditions and the credit will be received	
Timing and pattern of recognition in the income statement	*Policy election:* Deferral method - over the useful life of the related asset OR Flow-through method - in the period that the credit is generated	In the period that the credit is generated	Over the useful life of the related asset	Using a systematic basis over the periods in which the entity recognizes the related expenses, or immediately when the grant compensates the entity for expenses already incurred

Accounting Element	ASC 740 (ITC)	ASC 740 (non-ITC)	IAS 20 (Asset grant)	IAS 20 (Income grant)
Income statement presentation	*Deferral method* *Policy election:* Reduction in depreciation expense OR Reduction in the income tax provision *Flow-through method* Reduction in the income tax provision	Reduction in the income tax provision	*Policy election:* As a separate line item or under a general heading such as other income OR as a reduction of depreciation expense	*Policy election:* As a separate line item or under a general heading such as other income OR as a reduction to the related expense

Accounting for transferable credits under ASC 740

If a reporting entity elects to account for transferable credits under ASC 740, the financial statement impacts will differ depending on whether the credit is (1) an ITC, and, if so, which method the reporting entity uses to account for the ITC or (2) other than an ITC (e.g., a production tax credit).

ASC 740 accounting for transferable ITCs

Some of the IRA credits are ITCs – that is, they relate to the acquisition or construction of qualifying depreciable assets and are typically determined as a percentage of the cost of the asset. Reporting entities accounting for receipt of these credits under ASC 740 should follow the guidance in ASC 740-10-25-46, which provides two acceptable methods to account for ITCs.

- The “deferral” method - the tax benefit from an ITC is included in income over the useful life of the related asset
    - There are two acceptable approaches. The first recognizes the tax benefit from an ITC as a reduction in the book basis of the acquired asset, and, in turn, as a reduction of depreciation expense as the asset is depreciated. In the second approach, a deferred credit is recognized when the ITC is generated. The deferred credit is then amortized, and the benefit is recognized in income – either as a reduction in depreciation expense or a reduction in the income tax provision – as the asset is depreciated.

- The “flow-through” method - the tax benefit from an ITC is recognized as a reduction to the tax provision in the period that the credit is generated
    - The full benefit of the ITC is recognized in the income tax provision in the period the credit is generated.

As noted in ASC 740-10-25-46, the deferral method is preferable, although both methods are acceptable.

Accounting policies for ITCs should be applied consistently. As such, reporting entities should consider their existing policies for accounting for ITCs when determining the appropriate accounting for ITCs received under the IRA.

Accounting for ITCs received under the IRA may also result in temporary differences between the book and tax bases of the asset, which would give rise to deferred taxes.

> See PwC’s *Income taxes guide* 3.3.5 for additional guidance on accounting for temporary differences.

ASC 740 accounting for transferable credits other than ITCs

Many of the IRA credits (e.g., Sections 45V, 45Y, 45Z) are non-ITC credits that vary in amount depending upon the output of the underlying assets. Similar to the accounting for an ITC under the flow-through method when applying ASC 740, the benefit from a non-ITC is recognized in the income tax provision in the period the credit is generated. Generally, this would be the period in which the related production occurs, assuming the recognition principles in ASC 740 are met.

Transferring credits accounted for under ASC 740

A reporting entity that elects to account for a transferable credit under ASC 740 may nevertheless decide to sell the credit to another taxpayer instead of using it to reduce its own tax liability. In this case, when cash is received from the sale, the reporting entity would derecognize the carrying value of the credit. The FASB staff indicated it is most appropriate for any difference between the amount of the credit originally received and the proceeds from the sale to be recorded in the income tax provision, although accounting for the difference in pretax income may also be acceptable.

Because the sale of a tax credit accounted for under ASC 740 reflects the realization of a deferred tax asset, we believe it would be reasonable for a reporting entity to reflect the proceeds from sale as an operating cash flow. However, in certain circumstances, an alternative classification may be acceptable. For example, if a reporting entity sells an ITC that was accounted for under the deferral method as a reduction to the book basis of the asset, presenting the proceeds from the sale as an investing activity may be appropriate.

Accounting for transferable credits outside of ASC 740

In connection with accounting for transferable credits under the IRA, the FASB staff has indicated that their view is that ASC 740 is the most appropriate accounting framework. However, as US GAAP does not contain explicit guidance on such credits, the FASB staff acknowledges that other views may

be acceptable, including accounting for transferable credits outside of the income tax provision, similar to refundable or direct-pay credits.

If a reporting entity elects to account for transferable credits outside of the income tax provision, we believe it could analogize to the same models described above for direct-pay credits (i.e., IAS 20 or ASC 958-605). We discuss application of IAS 20 to transferable credits below. Reporting entities that elect to apply the contribution model in ASC 958-605 should refer to Chapters 6, 7, and 8 of our *Not-for-profit entities* guide.

Accounting for transferable credits by analogy to IAS 20

A reporting entity may use a transferable credit to reduce its own income tax liability, or it may sell the credit to another taxpayer. As stated in IAS 20, paragraph 9, the manner in which a grant is received (e.g., cash, reduction of a liability) does not affect the accounting treatment.

Based on the lack of specific US GAAP guidance for government grants, many US GAAP reporters have analogized to IAS 20 for other forms of direct government assistance. In the context of transferable credits under the IRA, we believe it would also be reasonable to analogize to IAS 20. Applying an IAS 20 model to transferable credits will generally follow the same framework described for direct-pay credits. However, transferable credits have some unique considerations, discussed below.

Measurement and presentation of transferable credits accounted for by analogy to IAS 20

Unlike direct-pay credits, transferable credits do not entitle a reporting entity to a cash payment from the government in the absence of an income tax liability. Instead, the reporting entity will either use the credit to reduce its income tax liability, or it will sell the credit to another taxpayer and receive cash from that taxpayer. Thus the credit is not a contractual right to receive cash and is more akin to a non-monetary asset contemplated in IAS 20.

Excerpt from IAS 20, paragraph 23

A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

Applying this guidance, transferable credits would be accounted for at fair value or alternatively at nominal value (generally zero or practically zero). Because of the stated dollar amount of the credit and the expectation that a market for transfer of the credits is likely to exist, we believe it would be most appropriate to record the credits at fair value at initial recognition.

The reporting entity will need to determine the appropriate balance sheet classification of the credit asset – typically an intangible or some type of other asset – based on its specific facts and circumstances. The type of asset recorded will impact the accounting guidance applied for subsequent measurement of that asset, including potential impairment.

Similar to a direct-pay credit, the income recognition for a transferable credit accounted for as a government grant will depend on whether the credit relates to an asset or income. Reporting entities should follow the guidance on grants related to assets and grants related to income discussed in the Direct-pay credits section.

Transferring credits accounted for by analogy to IAS 20

If a reporting entity sells a transferable credit that it has accounted for by analogy to IAS 20, it will need to determine which derecognition model to follow, and it will need to consider how any difference between the cash proceeds received and the credit's carrying value should be presented. These decisions will depend on the classification of the credit asset. Possible derecognition models include ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets,* and ASC 606, *Revenue from Contracts with Customers*.

Reporting entities will also need to assess whether and how any ongoing requirements related to increased credits or recapture events affect the recognition of income from the sale of those credits.

The statement of cash flows presentation of cash proceeds from sale of a transferable tax credit accounted for by analogy to IAS 20 will depend on the specific facts and circumstances of the credit, including the balance sheet classification of the credit being sold.

Cash received in exchange for transfers of credits classified as intangible assets would generally be reflected as investing cash inflows. For credits classified as other assets, cash received would generally be reflected as operating cash inflows. In certain situations, there may be more than one acceptable way to classify the cash inflows from selling a transferable credit. In these cases, the reporting entity will need to make an accounting policy election that is consistently applied.

Disclosure considerations

If a reporting entity accounts for transferable tax credits under ASC 740, it should provide the applicable disclosures required by that guidance.

> See FSP 16.3 and FSP 16.5 for the disclosures related to the balance sheet and income statement tax accounts required by ASC 740, respectively.

Even though US GAAP does not define government assistance or government grants, it does contain specific guidance in ASC 832, *Government Assistance*, on disclosures for transactions with a government that are accounted for by applying a grant (i.e., IAS 20) or contribution (i.e., ASC 958-605) model by analogy.

Direct-pay or transferable credits that reporting entities account for by analogizing to IAS 20 would be subject to ASC 832 disclosure requirements.

> See FSP 3.10 for the disclosures required by ASC 832.

Accounting for the purchase of transferable credits

A reporting entity that purchases a transferable credit from another taxpayer must use the credit to reduce its own taxes payable. As such, the reporting entity should follow the guidance in ASC 740-10-25-52 and the related example (Case F). In accordance with that guidance, the purchaser of the credit would record a deferred tax asset for the notional value of the credit. A purchased credit would be accounted for like any other deferred tax asset and subject to a realization assessment based on future taxable income. Any difference between the original cash payment for the credit and the notional amount of the credit would be recorded as deferred income. The deferred income would subsequently be recognized as a reduction to the income tax provision in the period in which the deferred tax asset for the credit is used to reduce taxes payable.

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Appendix 1 - Illustrative examples

Examples 1 through 4 illustrate application of ASC 740 and IAS 20 in accounting for a transferable ITC.

Examples 5 through 7 illustrate application of ASC 740 and IAS 20 in accounting for a transferable non-ITC (e.g., a PTC).

Transferable investment tax credit (ITC) fact pattern

Solar Co develops a renewable energy facility. Construction on the facility begins on March 1, 2024. The facility is placed in service on January 1, 2025, and has a useful life of 25 years. When placed in service, Solar Co's total investment is $450 million.

The facility is eligible for the clean electricity investment credit (Section 48E), but Solar Co did not meet any conditions that would allow it to increase the credit percentage beyond the base rate. As a result, Solar Co is eligible to receive a credit of $27 million (at the base rate credit of 6%) when the facility is placed in service.

Solar Co is not eligible for direct pay because it is not an "applicable entity." It is, however, eligible for the transferability provision.

All $450 million of development costs were incurred and capitalized during 2024. The book basis of the facility is equal to the tax basis unless otherwise noted.

Example 1 - Accounting for transferable investment tax credits under ASC 740, deferral method applied– deferred income, credits not transferred

Assume Solar Co elects to account for transferable credits under ASC 740 and expects to use the credit to reduce its 2025 income tax liability. Instead of recording the credit as a reduction of the book basis of the facility, Solar Co elects to present the benefit of the credit as deferred income.

Solar Co would record the following journal entries (amounts are in millions, some values have been rounded):

Dr. PPE	$450	
Cr. Cash		$450

To record the initial investment over the construction period (during 2024)

Dr. Income tax payable	$27	
Cr. Deferred income		$27

To record the ITC when the facility is placed in service on January 1, 2025

Both the PPE and the deferred income would be amortized over the 25 year life of the qualifying asset. Annual depreciation/amortization would be $18 million and $1 million for the PPE and deferred income, respectively.

Dr. Depreciation expense	$18	
Cr. Accumulated depreciation		$18

To record the depreciation of the facility during the 12 months ending December 31, 2025

Dr. Deferred income	$1	
Cr. Income tax provision		$1

To record the amortization of the deferred income during the 12 months ending December 31, 2025

Over the next 24 years, the remaining deferred income of $26 million would continue to be amortized as a reduction to the income tax provision.

Example 2 - Accounting for transferable investment tax credits under ASC 740, deferral method–deferred income, credits transferred

On January 1, 2025, when the facility is placed in service, Solar Co expects it will transfer the $27 million of credits in exchange for consideration of $25 million, which is assumed to be the fair value of the credits on January 1, 2025 for the purposes of this example. In applying ASC 740, Solar Co elects to consider expected proceeds from the sale of the credits as a source of realization in its valuation allowance assessment.

On June 1, 2026, Solar Co sells the entire credit to a third party for $26 million in cash.

Solar Co accounts for transferable tax credits under ASC 740 and uses the deferral method for investment tax credits. Instead of recording the benefit from receipt of the credit as a reduction of the book basis of the facility, it elects to record it as deferred income.

Solar Co would record the following journal entries (amounts are in millions; some values have been rounded):

Dr. PPE	$450	
Cr. Cash		$450

To record the initial investment over the construction period (during 2024)

Dr. Deferred tax asset (transferable credit)	$27	
Cr. Valuation allowance*		$2
Cr. Deferred income		25

To record the ITC under the deferral method when the facility is placed in service on January 1, 2025

** The deferred tax asset would be recorded at its notional value and a valuation allowance simultaneously recorded because (1) Solar Co only expects to realize $25 million of the $27 million credit upon sale and (2) it does not have sufficient future taxable income otherwise to realize the full value of the credit. In assessing the need for a valuation allowance, Solar Co considers any expected sale of the credits as a source of realization and would continue to monitor the market for the credits for any necessary changes in the valuation allowance.*

Both the PPE and the deferred income would be amortized over the 25 year life of the qualifying asset. Annual depreciation/amortization would be $18 million and $1 million for the PPE and the deferred income, respectively. Until such time as Solar Co uses the credit or transfers it, Solar Co would continue to assess the realizability of the DTA.

Dr. Depreciation expense	$18	
Cr. Accumulated depreciation		$18

To record the depreciation of the facility during the 12 months ending December 31, 2025

Dr. Deferred income	$1	
Cr. Income tax provision		$1

To record the amortization of the deferred credit during the 12 months ending December 31, 2025

Dr. Cash	$26	
Dr. Valuation allowance**	2	
Cr. Deferred income*		$1
Cr. Deferred tax asset (transferable credit)		27

To record the sale of the transferable credit on June 1, 2026

** Solar Co would record the difference between the proceeds from the sale and the carrying value of the transferable credit as an adjustment to the carrying value of the deferred income.*

*** Solar Co assessed the valuation allowance at March 31, 2026 and determined no adjustment was needed based on its expected sale proceeds for the credit. The change in selling price is a change in estimate that occurred between March 31 and June 1.*

Solar Co would amortize the remaining $25 million of deferred income, after adjustment, into the income tax provision over the remaining 23 years and 7 months of the useful life of the asset.

Example 3 - Accounting for transferable investment tax credits under ASC 740, deferral method–reduction in asset basis, credits transferred

Similar to Example 2, when the facility is placed into service on January 1, 2025, Solar Co expects it will transfer the $27 million of credits in exchange for consideration of $25 million. Solar Co elects to consider expected sales proceeds for the credits as a source of realization in its valuation allowance assessment.

On June 1, 2026, Solar Co sells the entire credit to a third party for cash consideration of $26 million. Solar Co elects to record the difference between the amount of the credit originally received and the proceeds from the sale in the income tax provision.

Solar Co accounts for transferable tax credits as part of its income tax provision in accordance with ASC 740 and uses the deferral method to recognize investment tax credits. Instead of recording the benefit from the credit as deferred income, it elects to record it as a reduction of the book basis of the facility.

The reduction to the book basis of the asset gives rise to a deductible temporary difference for which a deferred tax asset would also need to be recognized. For simplicity, the example journal entries exclude those related to this deferred tax asset, which would be determined using a simultaneous equation technique (see *Income taxes* guide, 3.3.5.2).

Solar Co would record the following journal entries (amounts are in millions; some values have been rounded):

Dr. PPE	$450	
Cr. Cash		$450

To record the initial investment over the construction period (during 2024)

Dr. Deferred tax asset (transferable credit)*	$27	
Cr. Valuation allowance (transferable credit)*		$2
Cr. PPE		25

To record the ITC under the deferral method when the facility is placed in service on January 1, 2025

** The deferred tax asset would be recorded at its notional value and a valuation allowance simultaneously recorded because Solar Co only expects to realize $25 million of the $27 million credit upon transfer. In its valuation allowance assessment, Solar Co considers any expected sale of the credits as a source of realization.*

On January 1, 2025, PPE has a net balance of $425 million ($450 million initial investment less $25 million ITC recorded as a reduction in book basis) and a tax basis of $450 million.

The PPE would be depreciated over its 25 year useful life. Annual

depreciation would be $17 million ($425 million over 25 years).

During this period, Solar Co would continue to assess the realizability of the deferred tax asset.

Dr. Depreciation expense	$17	
Cr. Accumulated depreciation		$17

To record the depreciation of the facility during the 12 months ending December 31, 2025

Dr. Cash	$26	
Dr. Valuation allowance (transferable credit)*	2	
Cr. Income tax provision		$1
Cr. Deferred tax asset (transferable credit)		27

To record the sale of the transferable credit on June 1, 2026

** Solar Co assessed the realizability of the credits at March 31, 2026 and determined no adjustment was needed. The change in the selling price of the credit is a change in estimate that occurred between March 31 and June 1.*

Over the remaining 23 years and 7 months, the original cost basis of the PPE, which reflected the reduction for the credit, would continue to be depreciated, effectively amortizing the credit as a reduction of depreciation expense.

Example 4 - Accounting for transferable credits; analogy to IAS 20; credits transferred

On January 1, 2025, Solar Co expects it will transfer the $27 million of credits in exchange for consideration of $25 million, which is assumed to be the fair value of the credits on January 1, 2025 for the purposes of this example.

Solar Co elects to account for the transferable credit by analogy to IAS 20. Solar Co determines the credit should be accounted for as a government grant related to an asset.

On June 1, 2026, Solar Co sells the entire credit to a third party for cash consideration of $26 million.

Solar Co records the non-monetary asset it receives from the government (i.e., the credit) at fair value.

Instead of recording deferred income, Solar Co elects to record the credit as a reduction to the basis of the asset, which will, in turn, reduce the depreciation expense over the life of the asset.

Solar Co would record the following journal entries (amounts are in millions; some values have been rounded):

Dr. PPE	$450	
Cr. Cash		$450

To record the initial investment over the construction period (during 2024)

Dr. Transferable credit asset	$25	
Cr. PPE		$25

To record the transferable credit asset once Solar Co determines the reasonable assurance threshold will be met. If Solar Co determines the recognition threshold is met prior to the in-service date, it would record the grant as the asset is being constructed.

The PPE would be depreciated over its 25 year useful life beginning on the in-service date. Annual depreciation would be $17 million (($450 million - $25 million) / 25 years).

Dr. Depreciation expense	$17	
Cr. Accumulated depreciation		$17

To record the depreciation of the facility during the 12 months ending December 31, 2025

Dr. Cash	$26	
Cr. Gain on sale*		$1
Cr. Transferable credit asset		25

To record the gain on sale of the transferable credit asset on June 1, 2026

** The sale of the transferable credit asset is accounted for under ASC 610-20, which requires that the gain on sale be presented in income from continuing operations before income taxes.*

Over the remaining 23 years and 7 months, the original cost basis of the PPE, which reflected the reduction for the credit, would continue to be depreciated, effectively amortizing the credit as a reduction of depreciation expense

Transferable production tax credit (PTC) fact pattern

Solar Co develops a renewable energy facility. Construction on the facility begins on March 1, 2024. The facility is placed in service on January 1, 2025, and has a useful life of 25 years.

Taxpayers can choose between a PTC (based on a rate applied to the kilowatt hours of electricity produced and sold in the period) under Section 45Y or an ITC (based on a percent of the overall investment when the facility is placed in service) under Section 48E. Solar Co chooses to claim the PTC under Section 45Y.

During the year ended December 31, 2025, Solar Co produced and sold 66.6 million KWh of electricity. Solar Co did not meet any other conditions that would allow it to receive any increased credit rates. As a result, Solar Co is eligible to receive a base credit of 0.3 cents per kilowatt hour (KWh) of electricity produced, resulting in a production tax credit of $200,000 during the year.

Solar Co is not eligible for direct pay because it is not an “applicable entity.” It is, however, eligible for the transferability provision.

Example 5 - Accounting for transferable production tax credits under ASC 740; credits used to reduce income tax payable

Solar Co expects to have sufficient taxable income in 2025 such that it will use the credits to reduce its income tax liability.

Solar Co would record the following journal entries (amounts are in thousands; some values have been rounded):

Dr. Income tax payable	$200	
Cr. Income tax provision		$200

To record the use of the credit to reduce income taxes payable during the 12 months ending December 31, 2025

Example 6 - Accounting for transferable production tax credit under ASC 740; credit transferred

Solar Co expects to transfer the credits generated in 2025. Absent sale of the credits, Solar Co would be unable to realize the value of credits from future taxable income. Solar Co expects that it will receive consideration of $180,000 in exchange for the credits. Solar Co’s accounting policy is to include expected proceeds from sale of the credits as a source of realization in its valuation allowance assessment and would continue to monitor for any changes in its valuation allowance based on current market conditions. Solar Co also elects to account for any difference between the sale proceeds and the carrying amount of the credits in the income tax provision.

On June 1, 2026, Solar Co sells the credits to a third party for cash consideration of $190,000.

Solar Co would record the following journal entries (amounts are in thousands; some values have been rounded):

Dr. Deferred tax asset (transferable credit)*	$200	
Cr. Valuation allowance (transferable credit)*		$20
Cr. Income tax provision		180

To record the deferred tax asset during the 12 months ending December 31, 2025

** The deferred tax asset would initially be recorded at its notional value and a valuation allowance immediately recorded because Solar Co only expects to realize $180 million of the $200 million credit through the transferability provision.*

Dr. Cash	$190	
Dr. Valuation allowance (transferable credit)*	20	
Cr. Income tax provision		$10
Cr. Deferred tax asset (transferable credit)		200

To record the sale of the transferable credit on June 1, 2026

** Solar Co assessed the valuation allowance at March 31, 2026 and determined no adjustment was needed. The change in expected sale proceeds occurred between March 31 and June 1. In accordance with its policy, Solar Co records the difference between the cash proceeds and the carrying value of the credit in the income tax provision.*

Example 7 - Accounting for transferable production tax credit under IAS 20; credit transferred

Solar Co elects to account for transferable production tax credits by analogy to IAS 20, and determines that the credits are grants related to income. IAS 20 provides an option to present income from the grant as a reduction to the related expenses, in a separate line item, or in a general category such as other income. In this example, Solar Co has made a policy election to record the grant in other income.

Solar Co records the nonmonetary asset it receives from the government (i.e., the PTC) at fair value. When generated Solar Co expects it will transfer the $200,000 of credits in exchange for consideration of $180,000, which is assumed to be the fair value of the credits on January 1, 2025 for the purposes of this example.

On January 1, 2026, Solar Co sells all of the PTCs to a third party for cash consideration of $190,000.

Solar Co would record the following journal entries (amounts are in thousands; some values have been rounded):

Dr. Transferable credit asset	$180	
Cr. Other income		$180

To record a transferable credit asset for the production tax credits earned during the 12 months ending December 31, 2025 once the reasonable assurance threshold is met

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Dr. Cash	$190	
Cr. Gain on sale*		$10
Cr. Transferable credit asset		180

To record the sale of the transferable credit asset on January 1, 2026

** The sale of the transferable credit asset is accounted for under ASC 610-20, which requires that the gain on sale be presented in income from continuing operations before income taxes.*

Appendix 2 - Detail on IRA credits

We provide additional information on the qualifying criteria for the bonus rates or other increased credit rate amounts as well as specifics on the individual credits included in the IRA.

Bonus rates and increased credit rates

To promote lower-carbon manufacturing and green jobs, larger credits are available if prevailing wage and apprenticeship requirements, domestic content, and/or location-specific criteria are met.

Bonus rates (five times the applicable credit's base rate) are available if certain labor provisions are met (i.e., prevailing wage and apprenticeship requirements). In other cases, the amount of an available credit increases if construction materials are manufactured in the US or the project is in a certain location (e.g., energy community). The following describes the nature of these provisions.

Prevailing wage and apprenticeship

- Both the prevailing wage and apprenticeship conditions must be met, with some limited exceptions for certain credits
  - *Prevailing wage conditions* - Any laborers and mechanics, including those employed by contractors and subcontractors, that perform work on the project must be paid prevailing wages during construction and throughout the subsequent recapture period (5-12 years depending on the credit), with some limited exceptions for certain credits
  - *Apprenticeship conditions* - A minimum percentage of total labor hours must be performed by qualified apprentices during the construction period

Domestic content

- In some cases, larger credits are available if facilities are constructed using steel, iron, or other products manufactured in the US
- Some credits allow for "stacking;" that is, there is an additional bonus if the prevailing wages and apprenticeship conditions are met in addition to the domestic content requirements
- Some credits are reduced or the entity becomes ineligible if domestic content requirements are not met

Location

- Eligibility for some credits is based on the location of construction projects

- Other credits are increased if a facility is placed in service in an energy community[1] or in connection with a low-income community
- Some credits provide an additional increase if the prevailing wages and apprenticeship conditions are also met

[1] An energy community is a brownfield site, an area with significant fossil fuel employment, or a census tract or any immediately adjacent census tract in which, after December 31, 1999, a coal mine has closed, or, after December 31, 2009, a coal-fired electric generating unit has been retired.

Individual credits

Additional details on each IRA credit are summarized below.

Alternative fuel vehicle refueling property credit (Section 30C)	
New or modified:	Modified. The current alternative fuel vehicle refueling property credit is extended through 2032 and expanded to include zero-emissions charging and refueling infrastructure.
Description:	Base credit of 6% and a bonus credit of 30% for expenses up to $100,000 for each installed charging station or refueling pump. To claim the bonus credit amount, taxpayers must satisfy prevailing wage and apprenticeship requirements for the duration of the construction of the eligible property.
Effective date:	Expanded credits are available beginning in 2022. Starting in 2023, charging or refueling property will be eligible for the credit only if it is placed in service within a low-income or rural area.

Renewable electricity production credit (Section 45)	
New or modified:	Modified. The current production tax credit (PTC) for renewable electricity resources (including wind, biomass, municipal solid waste, geothermal, hydropower, and marine and hydrokinetic) is extended to facilities that begin construction before January 1, 2025. The PTC for solar energy is revived (previously sunset in 2006) for facilities that commence construction before January 1, 2025. The current credit reduction and phaseout for wind facilities placed in service after December 31, 2021 is eliminated. The current credit reduction for hydropower and marine and hydrokinetic facilities is also eliminated. As a result, these facilities are now eligible to receive tax credits at full value, rather than the reduced values under the current credit regime.

Description:	The PTC provides a base credit rate of 0.5 cents/kilowatt hour for each kilowatt of electricity produced from qualifying facilities and sold to an unrelated party and is adjusted for inflation annually. Bonus rate credits are available for facilities that meet the prevailing wage and apprenticeship requirements and are 5 times the base rate. Taxpayers must satisfy (1) the prevailing wage requirements for the duration of the construction of the project and for each year during the 10-year credit period (beginning on the date the facility is placed in service) and (2) the apprenticeship requirements during the construction of the project. The credit is increased by 10% if domestic content conditions are met. If domestic content conditions are not met, the amount of the credit eligible for a direct pay election will be reduced. The credit also increases by 10% if the facility is located in an energy community. The bonus rates and increased credit rates are incremental. For example, a facility that meets the prevailing wage and apprenticeship requirements, the domestic content conditions, and is located in an energy community would receive a total credit equal to 3 cents/kilowatt hour: 0.5 cents/kilowatt hour x 5 = 2.5 cents (0.5 cents/kilowatt hour x 5) x 10% = 0.25 cents (0.5 cents/kilowatt hour x 5) x 10% = 0.25 cents 3.0 cents If a facility begins construction after August 16, 2022 and uses tax-exempt financing, the amount of the credit is reduced by the lesser of 15% or the fraction of tax-exempt financing proceeds over the total amount of capital expenditures for the facility.
Effective date:	Upon issuance for facilities that commence construction before January 1, 2025

New home energy efficiency credit (Section 45L)	
New or modified:	Modified. The current credit for new energy-efficient homes is extended through 2032.
Description:	The credit provides $2,500 for energy-efficient single-family and manufactured new homes meeting certain energy star requirements and $5,000 for those certified as a zero energy ready under the Department of Energy Zero Energy Ready Home Program.

	The credit provides $500 for eligible multifamily units that meet certain Energy Star requirements and $1,000 for those certified as a zero energy ready under the Department of Energy Zero Energy Ready Home Program.Bonus rate credits are available with respect to multifamily units when prevailing wage requirements are met for the duration of the construction of such units. Taxpayers claiming the credit do not have to reduce the basis for purposes of calculating the Section 42 low-income housing tax credit.
Effective date:	Upon issuance

Credit for carbon oxide sequestration (Section 45Q)	
New or modified:	Modified. The current carbon oxide sequestration credit is extended for facilities that begin construction before the end of 2032. It also modifies the minimum capture requirements for qualified facilities.
Description:	The IRA provides a base credit rate as follows: • $17 ($36 for direct air capture facilities) per metric ton of carbon oxide captured and sequestered in geological storage • $12 ($26 for direct air capture facilities) per metric ton of carbon oxide captured and utilized in an enhanced oil recovery project or for a commercial use that results in permanent sequestration Bonus rate credits of five times the base rate are available for facilities that meet the prevailing wage and apprenticeship requirements. Taxpayers must satisfy the prevailing wage requirements for the duration of the construction of the project and for each year during the 12-year credit period (beginning on the date the facility is placed in service) and satisfy the apprenticeship requirement during the construction of the project. Construction of carbon capture equipment financed using tax-exempt bonds that begins after August 16, 2022, the amount of this credit will be reduced by the lesser of 15% or the fraction of (1) the proceeds of a tax-exempt obligation used to finance such project divided by (2) the aggregate amount of additions to the capital account of such project. The direct-pay option is available to an “applicable entity,” as defined. All other taxpayers can make an election in the year the facility is placed in service, to apply direct pay for five years. A taxpayer may revoke

	its direct pay election, which is final and would apply starting in the year of the revocation. The transferability provision is available for periods that direct pay is not elected.
Effective date:	Generally applies to facilities or equipment placed in service after December 31, 2022

Zero-emission nuclear power credit (Section 45U)	
New or modified:	New. The IRA contains a new credit for the production of electricity from a qualified nuclear power facility. A qualified nuclear power facility is one that is owned by the taxpayer, uses nuclear energy to produce electricity, and is placed in service before August 16, 2022.
Description:	Taxpayers may claim either the Section 45 PTC or the Section 45U zero-emission nuclear power PTC for electricity produced by the taxpayer if the electricity is used at a qualified clean hydrogen facility to produce qualified clean hydrogen. The IRA provides a base credit of 0.3 cents/kilowatt hour for electricity produced by the taxpayer and sold to an unrelated person during the tax year. Bonus rate credits of five times the base rate are available for facilities that meet the prevailing wage and apprenticeship requirements. Taxpayers must satisfy prevailing wage and apprenticeship requirements for the tax year. The credit will be reduced as the sale price of such electricity increases. Under the credit reduction formula, the credit for any qualified nuclear power facility is reduced (but not below zero) by 80% of the excess of the gross receipts (including Federal, State, and local zero-emissions grants) from any electricity produced and sold by such facility over the product of 0.5 cents times the kilowatt hours of electricity sold during the tax year.
Effective date:	Applies to electricity produced and sold after December 31, 2023 and terminates on December 31, 2032.

Clean hydrogen production credit (Section 45V)	
New or modified:	New. There is a new tax credit for the production of clean hydrogen produced by a taxpayer at a qualified clean-hydrogen facility. The credit is available for a 10-year period beginning on the date the facility is placed in service (the credit period).
Description:	The IRA provides a base rate of $0.60, indexed to inflation, multiplied by the volume (in kilograms) of clean hydrogen produced by the taxpayer at a qualified facility during the tax year. The base rate is adjusted depending on the lifecycle greenhouse gas emission rate achieved in producing clean hydrogen. Bonus rate credits of five times the base rate are available for facilities that meet the prevailing wage and apprenticeship requirements. Taxpayers must satisfy prevailing wage and apprenticeship requirements for the duration of the construction of the project and for each year during the credit period and satisfy the apprenticeship requirements during the construction of the project. If a facility qualifies for both the Section 45Q and Section 45V credits, the taxpayer may only elect to apply one of those credits. Taxpayers that qualify for 45V may elect to claim the investment tax credit (ITC) under Section 48 credit (discussed below) instead. If a facility begins construction after August 16, 2022 and uses tax-exempt financing, the amount of the credit is reduced by the lesser of 15% or the fraction of (1) the tax-exempt financing proceeds divided by (2) the total amount of capital expenditures for the facility. The direct-pay option is available to an “applicable entity,” as defined. All other taxpayers can make an election in the year the facility is placed in service, to apply direct pay for five years. A taxpayer may revoke its direct pay election, which is final and would apply starting in the year of the revocation. The transferability provision is available for periods that direct pay is not elected.
Effective date:	Applies to clean hydrogen produced after December 31, 2022. No credit is allowed for facilities that begin construction after December 31, 2032.

Credit for qualified commercial clean vehicles (Section 45W)	
New or modified:	New. The IRA created a new credit for qualified commercial electric vehicles placed into service by the taxpayer. The credit also applies to mobile machinery, such as certain construction, manufacturing, farming, mining, or timbering machinery. The credit is equal to 30% of the cost of each qualified electric vehicle, up to $7,500 for a vehicle that weighs less than 14,000 pounds or up to $40,000 for all other vehicles.
Description:	A qualified commercial electric vehicle must meet certain specifications including being powered by an electric motor and capable of being recharged from an external source of electricity, or be a fuel cell vehicle. It must be produced by a qualified manufacturer (i.e., any manufacturer that enters into a written agreement with the US Treasury to ensure each vehicle manufactured meets the requirements of this credit). Vehicles powered by an internal combustion engine are eligible for a reduced credit of 15%.
Effective date:	Applies to vehicles or mobile machinery acquired after December 31, 2022.

Advanced manufacturing production credit (Section 45X)	
New or modified:	New. The IRA provides a new production credit for each “eligible component,” as defined, that is produced and sold.
Description:	Eligible components include solar polysilicon, wafers, cells, modules, backsheets, longitudinal purlins, and structural fasteners; wind blades, nacelles, towers, and offshore foundations; inverters; battery electrode active materials, cells, and modules; and critical minerals. The direct pay option is available to an "applicable entity," as defined. All other taxpayers can make an election in the year the facility is placed in service, to apply direct pay for five years. A taxpayer may revoke its direct pay election, which is final and would apply starting in the year of the revocation. The transferability provision is available for periods that direct pay is not elected.
Effective date:	Applies to eligible components produced and sold after December 31, 2022. The credits are provided based on mass, watt-capacity, sales price, or production cost,

	and are provided for eligible components produced and sold before January 1, 2030. The credit for all of the eligible components except for critical minerals will be reduced by 25% each year after 2029, and unavailable for components sold after 2032. This phaseout does not apply to the credits for critical minerals.

Clean electricity production credit (Section 45Y) / Clean electricity investment credit (Section 48E)	
New or modified:	New. Beginning in 2025, the IRA creates an emissions-based incentive that is neutral and flexible between clean electricity technologies that will replace most of the current, more specific PTCs and ITCs.
Description:	Taxpayers can choose between a PTC under Section 45Y or an ITC under Section 48E that is provided based on the carbon emissions of the electricity generated, measured as grams of carbon dioxide equivalents (CO2e) emitted per KWh generated. Any power facility of any technology can qualify for the credits, so long as the facility's carbon emissions are at or below zero. Taxpayers electing the PTC receive a base credit of 0.3 cents per kilowatt hour (KWh) of electricity produced and sold in the 10-year period after a qualifying facility is placed in service. The base credit is adjusted for inflation annually. Taxpayers electing the ITC receive a base credit of 6% of the investment in the year the facility is placed in service. Increased credit rates are available under the PTC and ITC for prevailing wage and apprenticeship provisions, domestic content, and location conditions. These increased credit rates apply in the same manner as for the Section 45 PTC and Section 48 ITC. For combined heat and power systems (CHP), the emissions rate will be calculated using both electrical and useful thermal energy. The British thermal units (BTUs) of useful thermal energy in a CHP system are converted to kilowatt hours using the facility's heat rate (the number of BTUs required to generate 1 KWh). These converted KWhs are also accounted for as production for purposes of the PTC. Stand-alone energy storage property is eligible for the ITC. Clean electricity projects smaller than five megawatts will be allowed to include the costs of interconnection under the clean electricity ITC.

Effective date:	Applies to facilities placed in service after December 31, 2024. The credits begin to phase out the later of 2032 or when the electric power sector emits 75% less carbon than 2022 levels. When phase out begins, it will be over three years. Facilities placed in service after December 31, 2024 may still be eligible under the then sunsetting Section 45 and Section 48 provisions if construction began before January 1, 2025, so long as the continuous construction requirements are met.

Clean fuel production credit (Section 45Z)	
New or modified:	New. Beginning in 2025, the IRA creates a technology-neutral credit for the domestic production of clean fuels that will replace most of the current specific credits for various types of fuel.
Description:	The level of the incentive depends on the lifecycle carbon emissions of a given fuel. Lifecycle emissions take into account the “well to wheel” emissions profile, from production of the feedstock for the fuel through its use in a vehicle. Fuels qualify for the credit if the fuel’s lifecycle emissions are less than 50 kilograms of CO2e per mmBTU (the US nationwide average). Fuels must also be at least transportation grade (i.e., suitable for use in a highway vehicle or aircraft), but may be used for any business purpose, including as transportation fuel, industrial fuel, or for residential or commercial heat. The credit is not allowed for non-aviation fuel that is derived from coprocessing biomass with a feedstock that is not biomass. The credit expires December 31, 2027. The Section 45Z credit is not allowed at a facility that during the tax year applies a credit under Sections 45Q, 45X, or 48 for clean hydrogen production facilities, but is allowed for biogas produced at facilities for which a Section 48 investment tax credit was claimed in 2023 or 2024. Zero-emission fuels qualify for a base incentive of $0.20 per gallon or gallon equivalent. Sustainable aviation fuel that meets certain American Society for Testing and Materials (ASTM) standards and is not derived from palm oil qualifies for a base incentive of $0.35 per gallon or gallon equivalent. The base incentive amounts will be adjusted to the extent a fuel’s lifecycle emissions are above or below

	zero, phasing out ratably between zero and the baseline emissions rate. Between now and 2030, qualifying fuels need to become increasingly cleaner in order to qualify for the credit. Bonus rate credits are available at five times the base rate for taxpayers that meet the prevailing wage and apprenticeship requirements. Taxpayers must satisfy the prevailing wage requirements for the duration of the construction of the project and for each year during the credit period ending December 31, 2027, and apprenticeship requirements during the construction of the project.
Effective date:	Applies to transportation fuel produced after December 31, 2024.

Energy investment tax credit (Section 48)	
New or modified:	Modified. The IRA extends the current ITC for solar energy property, geothermal property, fiber-optic solar property, fuel cell property, microturbine property, small wind property, offshore wind property, combined heat and power property, and waste energy recovery property that begin construction before January 1, 2025. The ITC credit is also expanded to include energy storage technology, biogas property, microgrid controllers, dynamic glass, and linear generators.
Description:	The base rate credit for all projects is 6% of the cost of the energy property, except for microturbine property, which has a base rate of 2%. Bonus rate credits of five times the base rate are available for facilities that meet the prevailing wage and apprenticeship requirements. Taxpayers must satisfy the prevailing wage requirements for the duration of the construction of the project and for five years after the project is placed into service and must meet the apprenticeship requirements during the construction of the project. The credit rate increases by 2% if domestic content conditions are met or 10% if the prevailing wage and apprenticeship requirements are also met. The credit increases 2% if the facility is located in an energy community or 10% if the prevailing wage and apprenticeship requirements are also met. These are all incremental credit increases. For example, a facility with a base rate of 6% that meets the prevailing wage and apprenticeship requirements, the domestic content conditions, and is located in an energy community

	would receive a total credit equal to 50% ((6% x 5) + 10% + 10%) of the cost of the energy property. An enhanced energy credit is available for solar and wind facilities placed in service in connection with low-income communities. Projects receiving an allocation of environmental justice solar capacity limitation, as defined, from the US Treasury will receive an additional 10% credit if the project is located in a low-income community (as defined within the New Markets Tax Credit program under Section 45D) or on Indian land. Projects can receive an additional 20% credit if the project is a qualifying low-income residential building project or a qualifying low-income economic benefit project. If a facility begins construction after August 16, 2022 and uses tax-exempt financing, the amount of the credit is reduced by the lesser of 15% or the fraction of tax-exempt financing proceeds over the total amount of capital expenditures for the facility. For purposes of this credit, energy property includes expenditures paid or incurred for interconnection property in connection with the installation of energy property (excluding microgrid controllers) that has a maximum net output of less than five megawatts.
Effective date:	Generally applies to facilities placed in service after December 31, 2022. The enhanced credit rate for facilities placed in low-income communities is effective beginning January 1, 2023. The ITC provided for geothermal heat pump property is extended for property that begins construction before January 1, 2033 and phases out until no credit will be allowed for property that begins construction after December 31, 2034.

Advanced energy project credit (Section 48C)	
New or modified:	Modified, and replenished with new funding. The IRA modifies the existing qualified advanced energy property credit, allowing the US Treasury to allocate an additional $10 billion in tax credits to qualifying projects starting in 2023. Four billion dollars will be set aside for qualifying projects in specified areas in which a coal mine or coal power plant has closed and in which no project received a Section 48C credit allocation in prior years, or in directly adjoining areas.
Description:	Unlike the other IRA credits, a taxpayer may claim this credit only if it applies for and receives an allocation. Projects placed in service before an allocation is

	received are not credit eligible. The Department of Energy, working with the US Treasury will determine the allocations to projects each year with a requirement that property is placed in service within four years of the date of the allocation. Requirements similar to the original credit apply, though eligibility has been modified to include projects to establish, expand, or re-equip facilities for the production, manufacturing, or recycling of advanced grid, energy storage, and fuel cell equipment; equipment for the production of low-carbon fuels, chemicals, and related products; renewable energy and energy efficiency equipment; equipment for the capture, removal, use, or storage of carbon dioxide; and advanced light-, medium-, and heavy-duty vehicles and related components and infrastructure. The credit is also allowed for projects that reduce carbon emissions at existing industrial facilities by at least 20%. Projects receive a base credit rate of 6% of qualified investments in qualified advanced energy projects. Bonus rate credits of five times the base rate are available for facilities that meet the prevailing wage and apprenticeship requirements (i.e., 30%). Taxpayers must satisfy the prevailing wage requirements for the establishment, expansion, or re-equipping of a manufacturing facility and satisfy the apprenticeship requirements during the construction of the project.
Effective date:	Applies to qualifying projects starting after December 31, 2022.