

Combatting the Climate Crisis Through Renewable Energy Tax Credits By Patrick M. Anglin

Legislators are combatting the climate crisis head-on through means that some may find to be unconventional: codified tax credits. On August 16, 2022, President Joe Biden officially signed the Inflation Reduction Act (the “Act”) into law.¹ The Act is intended to provide economic relief to Americans combatting increased electricity and gasoline prices and aims to lessen the impact of a potential recession. It also provides financial incentives for corporations and individuals to make the switch to renewable energies.² The Act allocated approximately \$369 billion towards climate and clean energy expenditures, which is sure to have an impact, but perhaps more effectively the Act has extended and increased existing tax credits for clean energy.³

This action by lawmakers raises two important questions: what are tax credits, and how do they serve as effective policy levers to move us towards cleaner energy sources? A tax credit is a dollar-for-dollar reduction in your income tax due for a given year.⁴ Tax credits are an extremely effective fiscal policy tool used to spur economic development and encourage investment in particular technological fields. Here, the federal government is providing tax credits to individuals and corporations to subsidize their costs for developing and implementing renewable energy sources at their homes and corporate facilities.⁵ When a corporation or individual makes the financial investment to switch to clean or more efficient energy sources, the government in turn allows them to remove a capped amount from the income tax due for that given year. By subsidizing renewable energy expenditures, the government can encourage the switch to cleaner energies without an outlay of cash.⁶

Renewable energy credits have been a part of the Internal Revenue Code (the “IRC”) for American taxpayers since 2005, with the introduction of The Energy Policy Act (the “EPACT”).⁷ EPACT focused on providing individuals tax credits for the cost of improvements made to air conditioners, heat pumps, windows, and water heaters.⁸ Since then, lawmakers have worked to expand existing credits and create new financial incentives to provide to businesses and homeowners to encourage them to switch to efficient and renewable energy sources.

The Act provides economic relief for renewable energy investments made by corporations and individuals alike. For corporations, tax credits are provided for the manufacturing and implementation of clean energy sources onsite.⁹ The credits have remained at their statutory 1.5

¹ THE WHITE HOUSE, BY THE NUMBERS: THE INFLATION REDUCTION ACT (2022).

² *Id.*

³ JONES DAY, <https://www.jonesday.com/en/insights/2022/08/the-inflation-reduction-act-impact-on-renewable-energy> (last visited Sep. 1, 2022).

⁴ OFF. OF ENERGY EFFICIENCY & RENEWABLE ENERGY, HOMEOWNER’S GUIDE TO THE FEDERAL TAX CREDIT FOR SOLAR PHOTOVOLTAICS (2022).

⁵ *Id.*

⁶ CENTER FOR GLOBAL DEVELOPMENT, <https://www.cgdev.org/blog/good-bad-and-ugly-how-do-tax-incentives-impact-investment> (last visited Sep. 1, 2022).

⁷ ENERGY STAR, *What is the history of the tax credits?* (Jan. 21, 2021), <https://energystar-mesa.force.com/ENERGYSTAR/s/article/What-is-the-history-of-the-tax-credits-1600088473864>.

⁸ *Id.*

⁹ Inflation Reduction Act of 2022, H.R. 5376, 117th Cong. (2022).

cents per kWh rate, directly subsidizing businesses for all clean energy produced.¹⁰ There is also the possibility for a 10% bonus tax credit for facilities built in brownfield sites, which are lands contaminated by pollutants or hazardous materials.¹¹ The Act has also made it easier for businesses to monetize their renewable energy tax credits, as they can sell them directly to unrelated parties for cash payments.¹² For homeowners, the Act is a successor to the EPACT, extending most of its policies for additional years. Existing tax credit programs for clean energy and energy efficient sources have been extended for ten additional years.¹³ Additionally, in response to climate challenges, inflation, and elevated gas prices, the Act provides tax credits for the purchase of electric vehicles - \$4,500 for used electric vehicles and \$7,000 for new vehicles.¹⁴ The Act can be read in its entirety [here](#).

These renewable energy tax credits may seem to be a small change to an increasingly complex tax code, but the government has high hopes for their potential impact. They project that these credits will reduce greenhouse gas emissions by 1 gigaton by 2030.¹⁵ That impact is expected to be provided by an estimated manufacturing and installation of 950 million solar panels, 120,000 wind turbines, and 2,300 grid-scale battery plants.¹⁶

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ THE WHITE HOUSE, *supra* note 1.

¹⁶ *Id.*