The Inflation Reduction Act Brings New & Enhanced Solar & Battery Project Incentives

Yesterday, President Biden signed the Inflation Reduction Act (IRA) into law, a massive $750 bill healthcare, tax, and climate bill that some are calling “the largest climate investment in American history”. Included in this bill are several new and enhanced incentives for solar PV and battery energy storage projects.

1. The IRA boosted the base-level Investment Tax Credit back up to 30% for the next 10 years

The Investment Tax Credit (ITC), has been a long-standing incentive program for solar and solar + battery projects. Prior to the IRA, the ITC was on a schedule stepping down in value from 30% to 10% of project costs for non-residential solar projects. We were currently at 26% for projects commencing construction in 2022, with values stepping down to 22% next year, and 10% in 2024. The IRA now pushes that value back up to 30% for the next 10 years, including projects placed in service this year.

2. The IRA adds several new ITC bonus credits

Over and above the 30% base level ITC, projects can qualify for bonus percentage points that meet specific requirements:

- An additional 10% is available for projects that meet Domestic Content minimums: *project must include 100% domestic iron/steel and an increasing percent of manufactured goods over time.*
- An additional 10% is available for projects sited in an “Energy Community”: *projects sited in a community that historically produced energy, and presumably will be affected by the energy transition, such as a community facing the closure of a coal-fired power plant.*
- An additional 10% is available for projects located in a “Low-Income Community”: *as defined by the New Markets Tax Credit or on Tribal Land*

- An additional 20% is available for “Qualified Low-Income Residential Building Projects” or “Qualified Low-Income Economic Benefit Projects”

3. The IRA makes several other significant updates to the ITC

Higher incentive levels come with specific Labor Requirements (prevailing wage and apprenticeship requirements). Credits are now transferrable, so customers without tax appetites can sell their credits. Stand-alone battery energy storage projects now qualify for the ITC (previously had to be paired with new solar to qualify). And a direct pay option is now available for public agencies, tribal governments, and certain other tax-exempt entities.

4. The IRA makes a Production Tax Credit (PTC) available for solar

As an alternative to the ITC, solar projects can now qualify for a Production Tax Credit (PTC), which provides varying levels of incentives per kilowatt-hour for energy produced over the first 10 years of the project. PTC credit values range from $0.005 to $0.033 per kilowatt-hour. Higher credit values are available to projects using “Domestic Content” and / or sited in an “Energy Community”, as described in item 2 above.

These new and enhanced incentives spell even more opportunity for teams to lower costs, increase sustainability, and enhance resiliency through the deployment of solar + battery projects. If your team is interested in exploring your opportunities, we would welcome the opportunity to meet with you to discuss you needs, and share how our industry leading independent consulting services mitigate risks and deliver highest project value. For teams in California, proceedings are still underway at the CPUC entertaining substantial proposed changes to the State’s Net Energy Metering (NEM) program, which (when enacted) are expected to substantially reduce the value of new projects. As such, TerraVerde is offering low-cost, fast-track project consulting services to evaluate opportunities and submit interconnection applications to secure the current NEM program while it is still available. If you’re interested in exploring your energy project opportunities, write to us today at hello@terraverde.energy.