Lowndes

Insights

Solar Industry to See Historic Investment from Inflation Reduction Act

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The Inflation Reduction Act of 2022, which Senate Democrats intend to move through their chamber using a budget reconciliation process allowing it to pass with 50 votes (plus Vice President Harris breaking a tie) before it moves to a vote in the House of Representatives, represents the single largest energy and climate investment by the U.S. government in the nation's history. Given the Act's objectives, which include lowering consumers' energy costs, increasing the country's energy independence, and decarbonizing the U.S. economy, clean and renewable energy businesses are poised for extraordinary growth.

The solar industry in particular – manufacturers, investors, workers, and suppliers – will benefit from billions of dollars in tax credits, funding for research, loans, grants, and other incentives provided in the Act, as discussed below.

Tax Credits

A key element of the 725-page Act is its extension of the production tax credit (PTC) and the investment tax credit (ITC) for solar (and other eligible) products. Notably, the Act extends the ITC for 10 years at 30 percent of the cost of installed solar equipment. The percentage decreases to 26 percent in 2033 and 22 percent in 2034.

Under the Act, the 30 percent credit applies to energy storage that is co-located or that is standalone.

Solar projects that begin construction prior to 2025 will be eligible to choose the PTC instead of the ITC. The Act also expands the ITC to solar facilities located in low-income or Native American communities. And, under the Act, the PTC and ITC retain the 10 percent bonus for domestic content – "adders," in fact, may increase the credit in some instances to 50 percent.

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In addition, the Act provides for an "advanced manufacturing production credit" intended to promote the domestic production of solar cells and modules and their components, with tax credits available for the production of cells, photovoltaic wafers, solar grade polysilicon, polymeric backsheets, solar modules, and more.

Significantly, a "direct pay" provision in the Act would permit developers to receive the tax credit as a refund, rather than as a credit for tax due – especially important where they owe no tax or owe tax in an amount less than the amount of the credit.

Residential Benefits

The Act extends for a decade the tax credits available to consumers for rooftop solar panels (as well as for other home energy products, such as electric heating, ventilation and air conditioning systems; heat pumps; and water heaters).

Defense Production Act

In early June, President Biden announced his intention to use the Defense Production Act (DPA) to increase domestic production of solar photovoltaic modules and module components. The Act builds on that announcement, appropriating $500 million for the DPA.

Conclusion

The Act also provides for, among other things, the sale of renewable energy tax credits; new funding to enable the U.S. Department of Energy to increase its financing of renewable energy projects; and "domestic manufacturing conversion grants" for the domestic production of efficient hybrid, plug-in electric hybrid, plug-in electric drive, and hydrogen fuel cell electric vehicles.

If the Act indeed becomes law, the U.S. solar industry will have the financial resources to be able to compete with the Chinese solar industry and, in fact, to end its dominance. Domestic production, and the U.S. market for solar panels and companion products, will soar. The Act's goal of reducing greenhouse gas emissions by approximately 40 percent by 2030 may very well be in reach.