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Clean Energy Tax Credits in the Inflation Reduction Act

The **Inflation Reduction Act** is a significant **opportunity to** address climate change, invest in the clean economy, and support and create good-paying union jobs across the country. Climate change science is unambiguous. **We must put America on a pathway to reducing greenhouse gas emissions to net zero by 2050 and ensure we are solidly on that path by 2030 to avoid the catastrophic consequences of climate change.**

At the same time, we must ensure that the jobs created in the energy economy are high-quality, good-paying union jobs. Our country is struggling with deep and crippling racial and economic inequalities. According to the Economic Policy Institute, “the bottom 90% of the American workforce has seen their pay shrink radically as a share of total income,” from 58% in 1979 to 47% in 2015.¹ That is almost \$11,000 per household—or \$1.35 trillion in additional labor income. There is a direct correlation with the decrease of worker power over this time, as the share of workers in a union fell from 24% in 1979 to under 11% now.²

The strengthened and newly established tax credits for clean energy in the Inflation Reduction Act will not only help drastically reduce emissions, but provide high-quality jobs in the clean economy. The bill—for the first time ever—includes high-road labor standards that go hand-in-hand with clean energy deployment. This is significant when considering—on the whole—high-road and union jobs pay better, have better benefits, and are safer than non-union jobs.³ Workers who are members of or are represented by a

union earn significantly more than those who are not across all relevant industries and occupations, with especially pronounced benefits for low-wage workers. For example, on average, union members earn a premium of 15% higher wages than non-union workers in the utilities sector and 45% higher wages in the construction sector.

The Inflation Reduction Act will help address the racial and income gap in this country by ensuring that these credits go to historically marginalized communities. These credits will provide additional economic development and job growth for communities that do not have strong economic activities, or have lost significant employment due to the closure of coal-fired power plants and other fossil fuels industries.

This bill also includes historic investments in the expansion and retooling of domestic clean energy manufacturing, as well as the necessary investments to establish robust supply chains for critical clean technologies—all while building good jobs nationwide and investing in the communities that need it most. All of the United States’ major economic competitors are making significant and strategic investments in the production and deployment of these technologies. This legislation provides the largest investment into our manufacturing economy in decades and would make strategic investments that will make the United States a leading global supplier of clean energy technologies.

At a time when inflation is hitting working-class people the hardest, we need policies that alleviate those

increased costs through higher wages and stable jobs. We also must reduce our emissions and transition to a clean energy economy. This bill does both. The bill is deflationary and cuts the national deficit by \$248 billion over ten years.^{4,5} At the same time, recent reporting from the Rhodium Group shows that the Inflation Reduction Act would result in a nearly 40% decrease in power sector emissions below 2005 levels by 2031. These investments would not only be fully paid for upfront, but would have the added benefit of a significant return on investment.⁶

CLEAN ENERGY DEPLOYMENT TAX CREDITS

The Inflation Reduction Act of 2022 extends and establishes clean energy tax credits for a litany of clean energy technologies through a production tax credit (PTC) and an investment tax credit (ITC). Both the PTC and ITC implement a dual approach of extending and expanding current tax credits for three years, and then switch to a tech-neutral credit for the following seven years.

The PTC is extended until 2025 for a range of clean energy technologies, including **solar energy, onshore wind, geothermal, and energy storage**. Starting in 2025 through 2032, the PTC takes a technology-neutral **approach** for all technologies with net-zero emissions.

Similarly, existing and expanded ITCs are extended through 2025, including **solar, geothermal, offshore and onshore wind, and energy storage**. Starting in 2025, the ITCs also transition to a technology-neutral approach until 2032.

DELIVERING GOOD UNION JOBS

For the first time, high-road labor standards are coupled with clean energy tax credits. For both the PTCs and ITCs, developers will receive either a “base” rate or a “bonus rate,” depending on the labor standards associated with the project.

- The “base rate” of 6% for the ITC or \$0.5 cents/per kilo-watt hours for the PTC.
- The “bonus rate” of 30% for the ITC or \$2.5 cents per kilo-watt hours for the PTC when the following labor standards are met:
 - **Prevailing Wage:** prevailing wage is a survey of the pay across any given industry to provide a floor for compensation. This wage is a competitive, family-sustaining wage that

ensures that workers receive fair compensation and that companies don’t have a race to the bottom when it comes to their pay.

- **Registered Apprenticeship Utilization:** Registered apprenticeships are programs that allow apprentices to “earn as they learn” and gain experience in construction-related jobs. These programs create high-skilled, educated workers who receive on-the-job training, while expanding the opportunities to historically marginalized communities. Starting in 2022, 10% of the workforce on any given project needs to be enrolled in an apprenticeship program—increasing to 12.5% in 2023 and finally 15% by 2024.

DRIVING DEMAND FOR DOMESTIC MANUFACTURING

The Inflation Reduction Act also establishes a bonus 10% tax credit for projects utilizing domestic content, which can be stacked on top of the PTC and ITC. This is the first time a “Buy America” preference has been applied to tax credits. These Buy America standards include the use of domestically made iron and steel and ramp up the percentage culminating in 55% for all other manufactured components.

Buy America is a policy that for over 40 years has ensured projects using government funds source materials domestically. This ensures that our tax dollars are not only accomplishing public works projects benefiting the taxpayer, but also are supporting jobs and industry here at home.

Coupling Buy America preferences with clean energy tax credits can help ensure that our emerging clean economy benefits jobs and industries here at home. Currently, too many parts of the clean technology supply chain come from foreign suppliers—some of which use exploitative labor and environmentally detrimental practices. This provision will support and drive U.S. manufacturing by creating a high demand for domestically produced clean technology and materials going into clean energy projects. This will create a market for domestically made advanced technologies, like solar module components and offshore wind components.

DRIVING INVESTMENT IN TARGETED COMMUNITIES AND REGIONS

While we're working to grow a clean economy, we must ensure that not only are these good jobs, but **accessible** jobs. This includes supporting and growing pathways into union jobs in these and other sectors for workers of color and other segments of the population historically left behind. The Inflation Reduction Act includes several tax credits that will drive these clean energy investments and jobs to the communities and regions that need them most.

Energy Communities Bonus Tax Credit: An additional tax credit of 10% is available for clean energy projects that are developed in communities where a significant portion of the population historically worked in traditional energy sectors or a community that hosts brownfield sites. Communities that have seen coal mine closures since 1999 or coal-fired power plant closures since 2009 are included.

Low-Income Communities Bonus Tax Credit: An additional tax credit of 10% is also available for the development of wind and solar projects in a low income community, defined as 200% below the federal poverty line. Associated grid technology—such as battery storage and transmission associated with new wind or solar projects—would also qualify. This provision is targeted to spur economic development in historically marginalized communities and addresses the reality of these communities facing the brunt of climate change and pollution for decades. This credit—along with the energy communities credit above—are available on top of the domestic content and production/investment tax credits.

MANUFACTURING TAX CREDITS

Investment Tax Credit to Build or Re-Tool Manufacturing Facilities (48C): The Inflation Reduction Act includes \$10 billion in funding for a revitalized and expanded 48C Advanced Manufacturing Tax Credit to spur domestic manufacturing of essential clean energy and vehicle technologies. The 48C tax credit funds a wide range of clean technology manufacturing projects. The bill sets aside \$4 billion dollars of these funds for communities that need it most, including those that have experienced deindustrialization and the decline of energy jobs. The bill's expansion of the 48C tax credit program is projected to create more than 114,000 good jobs over the next decade.⁷

New Clean Technology Manufacturing Production Tax Credits (45X) (PTC): The bill adopts important new strategic manufacturing production tax credits to onshore, establish, and expand domestic manufacturing supply chains for critical wind, solar, batteries, and energy infrastructure technologies—a multi-billion dollar need. It also expands the critical mineral list. While the 48C credit has been highly effective in making diverse, small- and medium-sized investments across clean technology sectors, there remain supply chains that warrant larger scale targeted and sustained investments due to a lack of substantial domestic manufacturing capacity, stiff global competition, and recent disruptions. These new manufacturing PTCs will be critical for building out a responsibly sourced domestic clean energy supply chain. The credits are applied to the following components:

- **Solar:** polysilicon, wafers, cells, backsheet, modules, torque tubes, or structural fasteners;
- **Wind:** blades, nacelles, towers, foundations, and OSW vessels as a “component;”
- **Energy infrastructure:** torque tube, structural fastener, and inverter;
- **Battery components:** electrode materials, cells, and modules; and
- **Critical minerals:** aluminum, cobalt, lithium, nickel, and many others.

Manufacturing has a long history of supplying good-paying jobs to workers across this country and has been the backbone of the middle class. However, the United States is not taking full advantage of the opportunity to support and strengthen domestic manufacturing. Decades of bad policy, offshoring, and outsourcing have weakened supply chains and caused the loss of millions of manufacturing jobs. The COVID-19 crisis has underscored the central importance of manufacturing to the country's economy and security, while revealing profound weaknesses in our critical supply chains.

If we fail to make the investments needed and put in place smart policies, U.S. manufacturing will continue to weaken. We have a key opportunity to reverse this trend and invest in growing clean technology manufacturing and supply chains in the United States.

IN CONCLUSION

The Inflation Reduction Act has high-road labor standards across the board for the construction and deployment of clean energy projects, while ensuring

that jobs in the renewable sector will be accessible through apprenticeship programs. This creates pathways for workers of color, women, veterans, and other historically marginalized communities. Prevailing wage sets a floor for worker compensation that increases the average worker salary in clean energy sectors. Looking at the wind and solar sectors as a whole, increasing wage compensation by just 20% will generate an additional \$5 billion economy wide through the end of the decade. This represents on average an additional \$13,000-\$20,000 for workers in these sectors.⁸ High-road labor standards are the best way to ensure workers and communities feel the benefits first hand as we transition to a clean economy.

This bill marks an historic opportunity to stem the tide on the climate crisis, create good-paying, union jobs in the clean economy, and invest in historically marginalized communities. Through the deployment of clean energy and the manufacturing of those technologies, this bill is the single largest climate and jobs investment in our nation's history and will get us well on the track to meeting the administration's goal of a clean grid by 2035.

ENDNOTES

- 1 Economic Policy Institute, "What labor market changes have generated inequality and wage suppression?: Employer power is significant but largely constant, whereas workers' power has been eroded by policy actions," December 2018. Available online: <https://www.epi.org/publication/what-labor-market-changes-have-generated-inequality-and-wage-suppression-employer-power-is-significant-but-largely-constant-whereas-workers-power-has-been-eroded-by-policy-actions/>
- 2 Ibid.
- 3 AFL-CIO, Building Power for Working People. Available online: <https://aflcio.org/what-unions-do/empower-workers#:~:text=Union%20Jobs%20Help%20Achieve%20Work%20Life%20Balance&text=There%27s%20more%20to%20life%20than,schedules%20and%20no%20mandatory%20overtime>
- 4 Committee for a Responsible Federal Budget, "IRA Will Help Fed Fight Inflation," August 1, 2022. Available online: <https://www.crfb.org/blogs/ira-will-help-fed-fight-inflation>
- 5 University of Pennsylvania Wharton, Inflation Reduction Act: Preliminary Estimates of Budgetary and Macroeconomic Effects, July 29, 2022. Available online: <https://budgetmodel.wharton.upenn.edu/issues/2022/7/29/inflation-reduction-act-preliminary-estimates>
- 6 Rhodium Group, *Assessing the Costs and Benefits of Clean Electricity Tax Credits*, February 9, 2022. Available online: <https://rhg.com/research/assessing-the-costs-and-benefits-of-clean-electricity-tax-credits/#:~:text=We%20find%20that%20the%20benefits,to%20%24309%20billion%5B2%5D>
- 7 BlueGreen Alliance, "9 Million Good Jobs from Climate Action: The Inflation Reduction Act of 2022" Available online: https://www.bluegreenalliance.org/wp-content/uploads/2022/08/BGA-IRA-Jobs-Factsheet-8422_Final.pdf
- 8 Princeton University, *Influence of high road labor policies and practices on renewable energy costs, decarbonization pathways, and labor outcomes*. Available online: https://netzeroamerica.princeton.edu/img/Working_Paper-High_Road_Labor_and_Renewable_Energy-PUBLIC_RELEASE-4-13-21.pdf

