IRA Tax Credits (ITC Focus)

Inflation Reduction Act

- Largest and most significant bill to address climate change in US history.
- $369 billion investment in energy security and climate change programs.
- Expanded existing and added many new [IRS credits and deductions]
- Authorized EPA to implement the Greenhouse Gas Reduction Fund (GGRF), a historic $27 billion investment to mobilize financing and private capital to combat the climate crisis – in large part modeled after CGB!

Energy Efficient Home Improvement Credit

CONNECTICUT GREEN BANK

Annual Credit Limits for Building Envelope Components and Qualified Energy Property: 25C(b)

These expenses may qualify if they meet [requirements detailed on energy.gov](#):

- Exterior doors, windows, skylights and insulation materials
- Central air conditioners, water heaters, furnaces, boilers, biomass stoves and boilers, and heat pumps
- Home energy audits
- 2023 through 2032: 30%, up to a maximum of $1,200 (heat pumps have a separate annual credit limit of $2,000), **no lifetime limit**

$1,200	**for the maximum credit of all types of property; 25C(b)(1)**
$600	for any item of qualified energy property 25C(b)(2)
$600	for all exterior windows and skylights; and 25C(b)(3)
$250	for any single exterior door with an annual aggregate limit of $500 for all exterior doors 25C(b)(4)
$2,000	for electric or natural gas heat pump, electric or natural gas heat pump water heaters, biomass stoves, or biomass boilers. 25C(b)(5)

IRS FAQs (very helpful)

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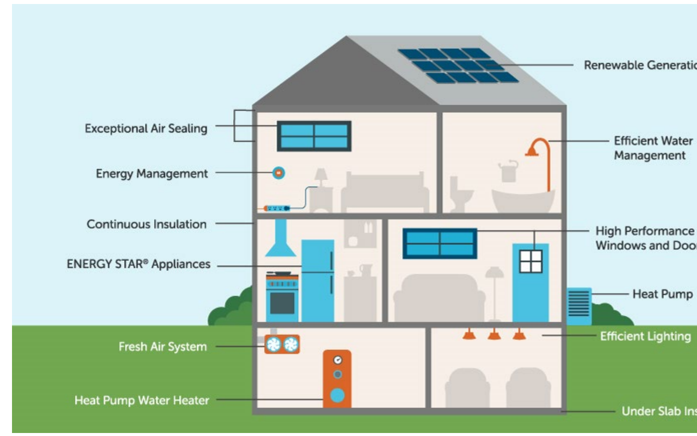
Residential Clean Energy Credit

These expenses may qualify if they meet [requirements detailed on energy.gov]:

- Solar, wind and geothermal power generation
- Solar water heaters
- Fuel cells
- Battery storage (beginning in 2023)



The amount of the credit you can take is a percentage of the total improvement expenses in the year of installation:

- 2022 to 2032: 30%, no annual maximum or lifetime limit
- 2033: 26%, no annual maximum or lifetime limit
- 2034: 22%, no annual maximum or lifetime limit

  IRS FAQs (very helpful)

Home Efficiency Rebates and Home Electrification and Appliance Rebates

CONNECTICUT GREEN BANK

Connecticut (though DEEP) is expected to receive about $100M, $50M under each program
DEEP has applied for the funds and would administer the programs
The home energy performance-based, whole house rebates (HOME Rebates):

- Rebates for energy efficiency retrofits range from $2,000-$4,000 for individual households and up to $400,000 for multifamily buildings.
- Grants to states to provide rebates for home retrofits.
  - Up to $2,000 for retrofits reducing energy use by 20 percent or more, and up to $4,000 for retrofits saving 35% or more.
  - Maximum rebates double for retrofits of low- and moderate-income homes.
  - **10% set aside for multi-family properties**

The high-efficiency electric home rebate program:

- Includes point of sale rebates, administered by states.
- Includes means testing and will provide 50% of the cost for incomes 80 to 150% of area median income, and 100% of the cost for incomes 80% of area medium income and below and similar tiers for multifamily buildings.
- Includes a $14,000 cap per household, with a $8,000 cap for heat pump costs, $1,750 for a heat pump water heater, and $4,000 for panel/service upgrade.
- Other eligible rebates include electric stoves and clothes dryers, and insulation/air sealing measures.
- **10% set aside for affordable multi-family properties**

Section 48/48E Investment Tax Credit

CONNECTICUT GREEN BANK

- 30% credit for **federal corporate income taxes** for projects placed in service or begin construction in 2023 through 2034
- From the residential customer perspective, the benefits of this tax credit are incorporated into the offtake agreement (e.g., PPA or lease)
- Interconnection costs qualify
- **Standalone storage qualifies**
- **Projects above 1MW must meet labor requirements**
  - Prevailing Wage and Apprenticeship Requirements
  - Guidance issued November 29, 2022
- **Transferability**
- **Direct Pay** (Elective Payment)
- **Bonus Adders** – may be combined
  - Energy Communities (10%)
  - Domestic Content (10%)
  - Low-income communities (10% or 20% - limited capacity and must be awarded)

Direct Pay (Elective Payment)

- Elective pay allows applicable entities, including tax-exempt and governmental entities that would otherwise be unable to claim certain credits because they do not owe federal income tax, to benefit from some clean energy tax credits. By choosing this election, the amount of the credit is treated as a payment of tax and any overpayment will result in a refund. I
- Illegible entities include tax-exempt organizations, states and political subdivisions such as local governments, and agencies and instrumentalities of state, local, tribal and U.S. territorial governments.
- Eligible entities would claim and receive an elective payment by making an elective payment election on their annual tax return along with any form required to claim the relevant tax credit. If the entity does not typically file a annual tax return, it would do so for this purpose.
- IRS Resources: Guidance and FAQs; Overview

Direct Pay (Elective Payment) Process

Please consult IRS resource, including: Guidance and FAQs; Overview. Below is a summary of the process:

1. Identify and pursue the qualifying project or activity
2. Determine your tax year, if not already known
3. Complete pre-filing registration with the IRS (requires information about entity and each eligible project/proper

- Upon completing this process, the IRS will provide you with a registration number for each applicable credit property. You will need to provide that registration number on your tax return as part of making the elective pay election.

4. Satisfy all eligibility requirements for the tax credit and any applicable bonus credits, if applicable, for a given tax year
5. File the required annual tax return by the due date (or extended due date) and make a valid elective payment election.
6. Receive elective payment directly from IRS

Transferability

- Generally, transferability and direct pay are intended to facilitate financing renewable energy projects by opening up a market to new types of investors outside of traditional institutional tax-equity players.
- Eligible taxpayers (sellers - generally taxpayers that can't take advantage of direct pay) can make an election to transfer all or a portion of an eligible credit to unrelated taxpayers (buyers) for cash payments (full market value). Tax credits can only be sold once.
- Cannot transfer depreciation benefits.
- The buyer claims the transferred credits on its tax return. The payments is not included in gross income of the seller and are not deductible by the buyer.
- Will require buyers to do careful diligence before buying tax credits.
- Buyers can carry back the tax credits they buy up to three years.
- Guidance and FAQs

Bonus Adders – Domestic Content (10%)

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- Generally project qualifies if (i) 100% of any steel or iron that is a component of the facility was produced in the U.S., and (ii) 40% (20% for offshore wind) of manufactured products that are components of the facility were produced in the U.S.
- Guidance issued on May 12, 2023
- Adjusted percentage rule to determine whether manufactured products, including manufactured product components, are U.S. products.
- Safe harbor for categorizing certain applicable project components.
- Taxpayer must submit a statement, with annual return, for each applicable project for which the taxpayer is reporting a domestic content bonus, certifying that any steel or iron items or manufactured products subject to the requirements were produced in the U.S. The applicable project must meet the domestic content requirements as of the date the project is placed in service. There are record keeping requirements. IRS may publish new forms

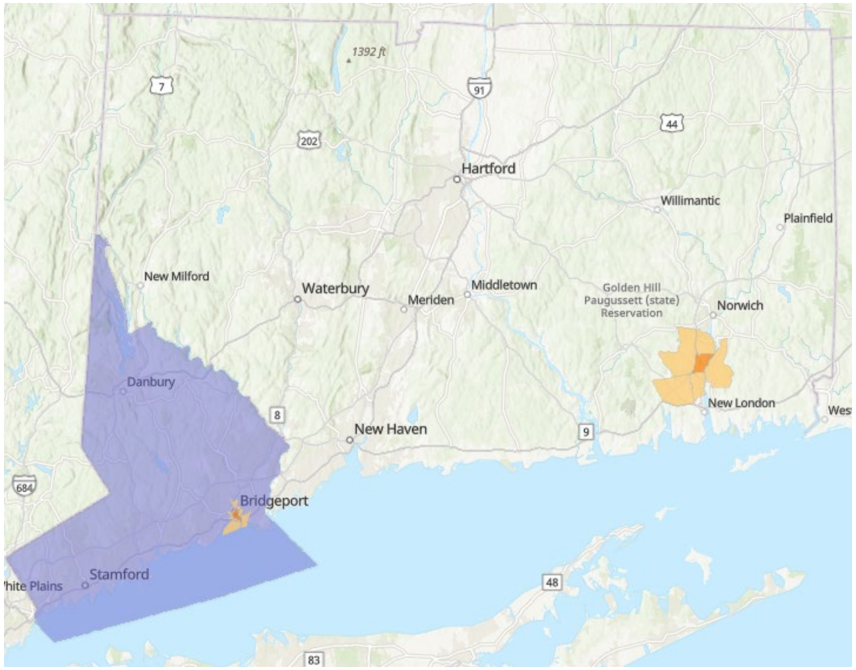
Bonus Adders – Energy Communities (10%)

- **Metropolitan or non-metropolitan statistical area (MSA/non-MSA)** which (1) meets certain employment metrics related to the extraction, processing, transport, or storage of coal, oil or natural gas, AND (2) has an unemployment rate above the national average for the previous year (**updated May of each year**);
- Census tract, or a census tract that is adjoining to a census tract, in which a coal mine has closed after 1999 or a **coal-fired electric generating unit was retired** after 2009; and
- **Brownfield** as defined by federal definition (CERCLA). Petroleum contamination does not fall under that definition. Site may qualify if (1) it was previously assessed through brownfield resources as meeting the definition, (2) Phase II confirms the presence on the site of a hazardous substance, or (3) For projects less than 5MW (AC), a Phase I identifies the presence or potential presence on the site of a hazardous substance, or a pollutant or contaminant.
- Guidance issued on April 4, 2023 and further clarified on June 15, 2023
- IRS FAQs for Energy Communities (very helpful)

Energy Communities Cont.

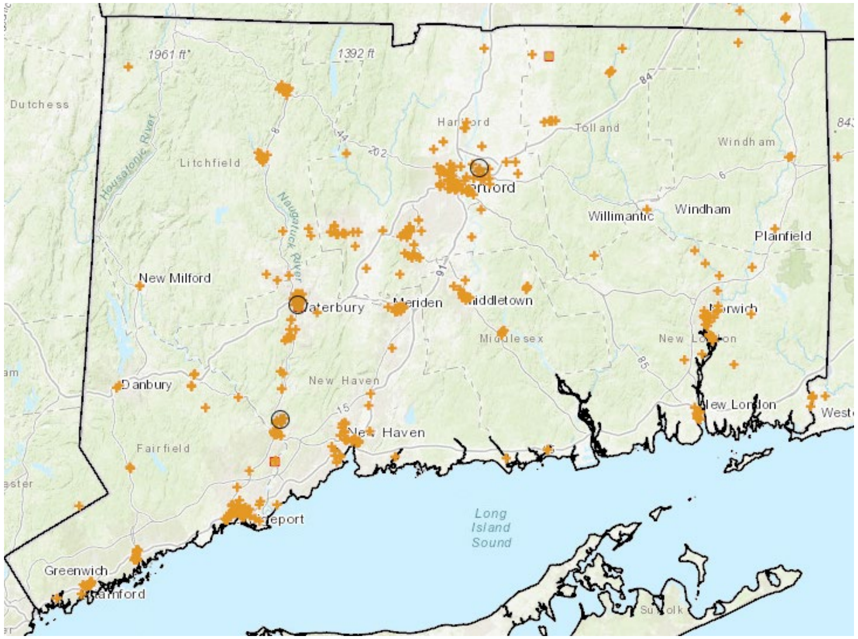
MSAs and Coal-Fired Unit Retirements ([DOE Energy Community Tax Credit Bonus Map]())

Note: MSA (Counties) subject to update every May.



EPA/CERCLA Brownfields ([EPA Clean Up My Community Map]())

Note: There is no comprehensive map of brownfields for this purpose. Other brownfields (such as those on larger DEEP/DECD brownfield list) may qualify as well as those that utilize the Phase I or Phase II safe harbor.



Low-Income Communities Bonus Credit Program(10%or20% Adder)

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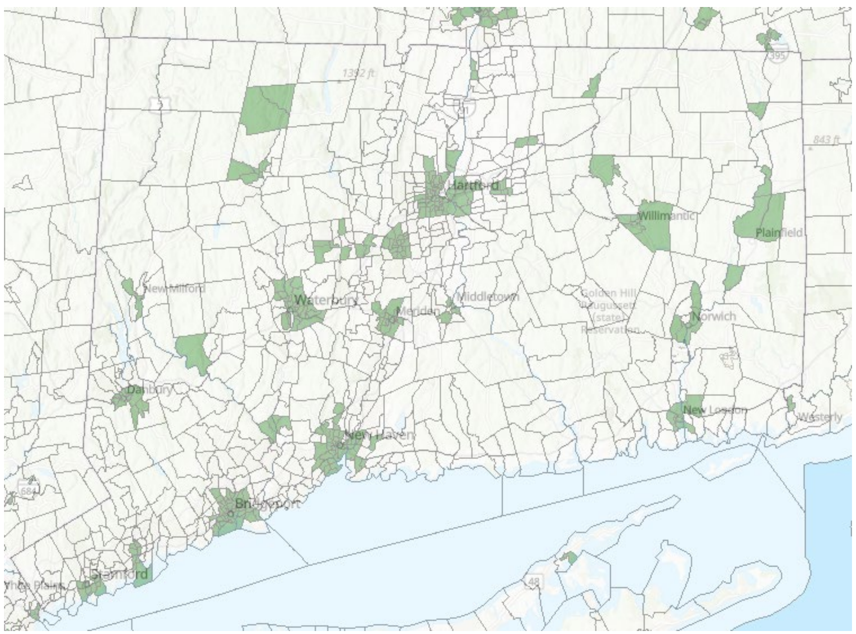
- **Only applies to solar & wind** projects <5 MW of capacity. Can include storage and storage does not count towards the 1.8GW pool
- Storage must be charged 50% from the solar/wind. Safe harbor for the storage is 2x KW of solar/wind.
- Must apply and we awarded an allocation by IRS, from a 1.8GW annual pool
- [IRS published Final Regulations which will be effective October 16, 2023]
- Applications submitted within the first 30 days will be treated as submitted on the same date and at the same time, and on a rolling basis thereafter.
- Category 1 and 2 below get 10% adder and categories 3 and 4 get 20%
- ill

Category 1: Located in a Low-Income Community	700 megawatts
Category 2: Located on Indian Land	200 megawatts
Category 3: Qualified Low-Income Residential Building Project	200 megawatts
Category 4: Qualified Low-Income Economic Benefit Project	700 megawatts

Low-income Communities Cont.

Category 1 Map (New Markets Tax Credit and Indian Land Map) Indian Land (Category 2) not pictured below.



Category 3 and 4

- (3) such project must be installed on a residential rental building which participates in a covered housing program or such other affordable housing program designated by Treasury, and the “financial benefits” of the electricity produced by such facility must be distributed equitably among the occupants of such building. “Financial benefit” is a term of art and may be demonstrated in various ways. [Overlap with RRES]
- (4) at least 50% of the electricity produced at the project must be provided to households with income less than 200% of the poverty line or less than 80% of area median gross income. The Treasury may reserve allocations under category (4) exclusively for applicants proving a 20% bill credit discount rate for the low-income households the project will serve.