

Empowering Sustainability:

The Role of the Stimulus Measures in
Catalyzing Renewable Energy in the U.S

Introduction

The US energy sector has witnessed remarkable growth, largely driven by tax credits and incentives that promote investments in renewable energy sources. This article explores the crucial tax credit-related compliances in the US energy sector, encompassing federal and state solar tax credits, renewable energy tax credit transfers, and the impact of the Inflation Reduction Act on the Investment Tax Credit (ITC) and Production Tax Credit (PTC).

Federal Solar Tax Credits

Investment Tax Credit (ITC)

- Designed to encourage businesses to invest in solar energy systems.
- Offers a 30% tax credit for commercial solar panel installations.
- Compliance requirements include purchasing and installing solar panels on commercial property, filing Form 5695 with the IRS, maintaining accurate records, and providing documentation for tax credit claims.



Impact of the Inflation Reduction Act on Tax Credit Compliances

The Inflation Reduction Act has brought significant changes to tax credit compliances in the US energy sector, particularly for the Investment Tax Credit (ITC) and Production Tax Credit (PTC). Some key impacts include:

Restoration of ITC Rate: The act restores the full 30% ITC rate for projects that commenced construction before January 1, 2023. This means that eligible projects can benefit from a higher tax credit percentage, providing a stronger incentive for investment in renewable energy systems.

Extension of ITC and PTC: The Inflation Reduction Act extends the 26% ITC for solar projects through 2025 and the PTC for wind projects through 2025. This provides businesses with an extended period to take advantage of these tax credits and encourages continued investment in renewable energy.

Two-Tiered System for PTC: The act introduces a new two-tiered system for the Production Tax Credit (PTC), with a base rate of 0.3 cents per kilowatt-hour (kWh) and an increased rate of 1.5 cents per kWh for projects that meet prevailing wage and apprenticeship requirements. This incentivizes the inclusion of labor standards in renewable energy projects and promotes job creation in the industry.

Commercial Energy Efficient Property Credit:

- Businesses can claim this credit by filing Form 8910.
- The credit incentivizes investments in energy-efficient property and alternative fuel vehicles.
- The credit amount varies based on the property type and energy efficiency rating.



Residential Energy Efficient Property Credit

- Homeowners can claim a 26% tax credit for installing energy-efficient property in their homes.
- Compliance requires filing Form 5695 with the tax return.
- The credit amount varies based on the type of property and installation date.

State Solar Tax Credits

- State-level tax credits have driven the adoption of solar energy.
- Examples include South Carolina's 25% credit for solar energy system costs and New York's 25% credit up to \$5,000.
- State tax credits, combined with the federal ITC, have made solar energy systems more affordable.

Renewable Energy Tax Credit Transfers

- The Inflation Reduction Act allows the transfer of renewable energy tax credits.
- Enhances tax equity financing accessibility for businesses.
- Compliance requirements include meeting IRS eligibility criteria, maintaining accurate documentation, and filing IRS Form 3468.

Compliance Requirements for Renewable Energy Tax Credit Transfers

With the introduction of renewable energy tax credit transfers, there are certain compliance requirements that businesses need to fulfill to take advantage of this provision:

Eligibility Criteria: Businesses must meet the eligibility criteria outlined by the IRS to transfer renewable energy tax credits. This may include specific requirements related to the type of renewable energy project, its commencement date, and its qualification for tax credits.



Documentation and Reporting: Businesses must maintain accurate documentation and records related to the renewable energy project and the transfer of tax credits. This includes information about the project's construction, completion, and energy production, as well as details of any financial transactions related to the transfer of tax credits.

IRS Form 3468: To claim the renewable energy tax credit transfer, businesses must complete and file IRS Form 3468, titled "Investment Credit," along with their tax return. This form requires detailed information about the renewable energy project, including its type, location, and total qualified investment.

Compliance with IRS Guidelines: Businesses must adhere to the guidelines provided by the IRS regarding the transfer of renewable energy tax credits. This includes ensuring that the transfer is properly documented and meets all necessary criteria for eligibility and compliance.



Regulatory Compliance and Grant Opportunities for Public Utilities

Federal Energy Regulatory Commission (FERC) Compliance: Public utilities that own or operate transmission or distribution facilities are required to file annual reports on the status of their systems. The report, Form EIA-820, is due annually on March 31st and includes data on the physical characteristics of the transmission and distribution systems, such as the number of miles of lines, the amount of capacity, and the types of equipment used.

Environmental Protection Agency (EPA) Compliance: Public utilities that operate facilities emitting pollutants or discharging wastewater must comply with environmental regulations, such as the Clean Air Act and the Clean Water Act. The frequency and dates for filing vary, and the data required includes information on emissions, water usage, and other environmental impacts.

North American Electric Reliability Corporation (NERC) Compliance: Public utilities operating facilities that are part of the electric grid must comply with NERC reliability standards. The frequency & dates for filing vary, and the data required includes information on the reliability of the electric grid, such as the number of outages and the amount of power that is lost.

State Public Utility Commissions (PUCs) Compliance: Public utilities operating in a particular state must comply with state regulations, such as those for rates, service, and safety. The frequency and dates for filing vary, and the data required includes information on rates, service quality, and safety records.

U.S. Department of Energy (DOE) Grant Opportunities: The DOE offers several grant programs to help businesses adopt energy-efficient technologies, expand into new markets, create jobs, and comply with regulations. These include the Energy Efficiency and Renewable Energy (EERE) program, the Clean Energy Manufacturing Initiative (CEM), and the Advanced Research Projects Agency-Energy (ARPA-E).

U.S. Department of Agriculture (USDA) Grant Opportunities: The USDA offers several grant programs to help businesses install renewable energy systems in rural areas, create jobs in the clean energy sector, and improve energy efficiency in rural communities. These include the Rural Energy for America Program (REAP), the Rural Business Development Grant (RBDG), and the Rural Energy Savings Program (RESP).

Conclusion

Navigating tax credit-related compliances in the US energy sector is crucial for businesses and individuals seeking to take advantage of incentives and promote investments in renewable energy. Understanding the requirements and processes involved in federal and state solar tax credits, renewable energy tax credit transfers, and the impacts of legislative changes such as the Inflation Reduction Act is essential for maximizing the benefits of these tax incentives and ensuring compliance with applicable regulations. By staying informed and fulfilling the necessary compliances, stakeholders can contribute to the growth of the renewable energy sector while optimizing their financial advantages.



Karthikeyan V Raaj
Founding Partner

About the Author:

Karthikeyan V Raaj has over 18 years of experience as a Senior Finance Executive and as a CFO business partner. He has championed strategic projects and helped transform finance functions to enable growth of his client organizations. Currently, he is the Founding Partner of ValueXPA, a Global technology-enabled Finance-as-a-Service Partner for Small and Mid-sized Businesses and Institutions. As a CFO Partner, he has advised and helped over 50 small and mid-sized businesses, start-ups and Not-for-profit Institutions - across areas like financial planning, tracking and managing their financial performance through systems, optimizing finance processes through automation and outsourcing.

His specialties include CFO Partnering on Strategic and Business Financial Advisory, Finance Transformation, Financial Modelling, Financial Planning and Analysis, Performance Management Reporting & Decision-support, Development of KPIs and Management Dashboards, Valuation and Analytical Process Automation using Low code/ No code tools. Earlier, he held leadership roles at Barclays and S&P Global. For Global Business Leaders/companies & Financial Institutions, he offered Financial Decision and Controller Solutions and also built & led Investment Research teams globally. He holds an MBA degree specializing in Finance and is also a qualified Engineer.

**For more information on business partnering
please connect with us!**

Write to us at info@valuexpa.com

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