

FIVE KEY POLICY LESSONS FROM THE INFLATION REDUCTION ACT AND THE BIPARTISAN INFRASTRUCTURE LAW



PERFORMANCE-BASED INVESTING WITH LONG-TERM ACCESS

The tech-neutral clean-energy investment (48E) and production (45Y) tax credits, which will be accessible for at least ten years, or longer pending the rate of decarbonization in the power sector, are the workhorses of the Inflation Reduction Act (IRA). **The clear and certain long-term pathway for these credits make them particularly compelling as a driver of private sector investment. Allowing companies to make investments based on performance, rather than a specific technological pathway, will incentivize innovation and opportunities for new approaches.** With proper implementation guidance from the U.S. Treasury department, particularly for direct pay, transferability, domestic content and prevailing wage requirements, and definitions for energy communities, these credits will produce significant climate and economic development benefits to communities across the country.

SUPPORT FOR DOMESTIC EMPLOYMENT WITH FAIR WAGES

The clean vehicle tax credits for light- and medium- (up to \$7,500) and heavy-duty vehicles (up to \$40,000) via the 30D clean vehicle credit and its companion 45W commercial vehicle credit, have already contributed to a remarkable amount of investment in the U.S. vehicle market. **The requirements to fully capitalize on these credits include domestic content and prevailing wage requirements that are driving investments in the U.S. vehicle supply chain and workforce, particularly electric vehicles.** The transportation sector is the largest emitting sector in the U.S. economy, with light-duty

vehicles (including passenger cars and light-duty trucks) accounting for ~57 percent of the sector's footprint, making them a priority for decarbonization efforts. These tax credits, paired with investments \$18.6 billion in clean vehicle charging and refueling infrastructure investments in the Infrastructure Investment and Jobs Act (IIJA), have contributed to immediate and significant growth in private sector investments, including roughly \$88 billion in investments driven by the IIJA and IRA, creating approximately 60,000 jobs in the process.

BROAD POOLS OF ELIGIBILITY WITH EXTENDED TIMELINES

The section 45Q tax credits, which were extended and expanded in the IRA, also have the potential to help spur significant private investment in the emerging carbon removal sector. The IRA increased the incentive for geologically sequestered carbon from industrial and power facilities to \$85/ton, or \$60/ton for beneficial use, including enhanced oil recovery. Importantly, incentives for direct air capture (DAC) were increased to \$180/ton for geologically sequestered carbon, and \$130/ton for utilization of carbon captured via DAC. **By extending these incentives with a commence construction date at the end of 2032, and lowering the minimum threshold for projects to qualify for the credit, the IRA also helps to provide certainty for project developers, while broadening the pool of eligible projects.** The changes to 45Q as part of the IRA are projected to significantly increase the deployment of carbon removal technologies, including a 35–40 percent increase in DAC deployments by 2030, and more than doubling the total volume of carbon removal capacity by 2035.

LEVERAGING REGIONAL SUPPLY CHAINS

An emerging, and important element in the IIJA is the inclusion of “hub” concepts. In the IIJA, the U.S. Department of Energy (DOE) was provided \$8 billion to establish hydrogen hubs across the country, **which will look to capitalize on the co-location of supply and demand, as well as shared infrastructure, to reduce costs and risks for companies who are part of these programs.** Similarly, the \$3.5 billion direct air capture (DAC) hubs, will leverage synergies across the value chain to drive down the costs of this critical technology, boost demand, accelerate innovation and help rapidly scale new technologies. In addition to the 50 percent cost-share these programs will generate in private sector investment, the interest in the hub applications from those projects who do not win awards will also likely spur investments in qualified projects. Validating new technologies while lowering the costs and refining associated business models across the value chain that will be needed to profitably deploy them will spur significant private sector investments.

INVESTMENT IN LOW-INCOME, MARGINALIZED COMMUNITIES

The [greenhouse gas reduction fund](#) includes a total of \$27 billion across three program areas, designed to spur significant private sector investments across the country, with more than 55 percent of that amount available to low-income, marginalized communities. This fund includes: \$14 billion for a national clean investment fund, which will function as a green bank, with nonprofit and private sector partners working to provide accessible financing for clean energy projects across the country; \$6 billion for a clean communities investment accelerator, which will provide grants to nonprofit “hubs” to support the delivery of financial resources and technical assistance to build the climate lending capacity of community lenders working in low-income and disadvantaged communities; and \$7 billion for the Solar for All program, which provides grants to state, local, Tribal, and territory governments to expand rooftop access to affordable, resilient, and clean solar energy in low-income, low-wealth communities. Taken together, these investments will focus on growing local, clean energy economies that will leverage billions in private sector investment. **The success of this program could also have real impacts on the political economy surrounding the low-carbon transition, by offering local, experience-based proof points for communities to better understand the contours of low-carbon economic development opportunities and what an accelerated transition could mean to the local economy.**



The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to secure a safe and stable climate by accelerating the global transition to net-zero greenhouse gas emissions and a thriving, just, and resilient economy.