KPMG

Advanced Manufacturing Production Credit

Inflation Reduction Act: section 45X

What is the Section 45X tax credit?

The Inflation Reduction Act of 2022 provides a new production tax credit under section 45X for each eligible component that is produced in the U.S. and sold to unrelated third parties as part of the taxpayer's business. Eligible components include solar, wind and EV parts, including solar polysilicon, wafers, cells, and modules, nacelles, towers, and offshore foundations, wind blades, battery cells, battery modules, and certain critical minerals.

Credit amount

The credit amounts are generally determined on a mass or watt capacity basis depending on the type of component.

- For example, in the case of a solar module the credit is equal to the product of $0.07 multiplied by the capacity of the module (expressed on a per direct current watt basis).
- For electrode active materials and applicable critical minerals, the credit would be equal to 10% of the production costs incurred by the taxpayer*.

Available for components produced and sold to unrelated parties after 2022

In general, unrelated parties are buyers that would have no more than a 50% cross ownership relationship with the seller, but complicated attribution rules apply.

At the election of the taxpayer (in such form and manner as the Secretary may prescribe), a sale of components by such taxpayer to a related person shall be deemed to have been made to an unrelated person.

The prevailing wage and apprenticeship requirements do not apply to this credit

Interaction with 48C

The credit is not allowed for components produced at a facility receiving a section 48C credit

Direct Pay/Refundability

- Taxpayers may elect to make the credit refundable through a direct pay mechanism
- Such election would apply to the taxable year and four subsequent taxable years

Transferability

- A taxpayer may elect to transfer the credit (or any portion of the credit) to an unrelated taxpayer.
- For any taxable years for which a direct pay election is made, taxpayers may not also elect to transfer the credit.

Phase out

- For components sold after 2029 (with the exception of critical materials), the credit is reduced by 25% each year, and would be unavailable for components sold in 2033 and beyond

KPMG Observation

The section 45X credit is intended to boost production of wind, solar, and EV components. The program is likely designed to coordinate with Domestic Content rules available to increase the wind and solar investment tax credits and production tax credits as well as support the new battery sourcing requirements for the clean vehicle tax credits.

Other Energy Tax Provisions provided in IRA

Extensions/modifications to:

- Sec. 45 Production tax credits and Sec. 48 investment tax credits for wind, solar, geothermal, hydropower, etc.
- Sec. 45Q Credit for carbon oxide sequestration (increased rates)
- Sec. 48C Credit for manufacturing energy property including EV components, fuel cells, electric grids, etc.
- Sec. 40 Second-generation biofuel credit
- Sec. 40A and 6426 Biodiesel and renewable diesel; biodiesel mixture credit; alternative fuel credit
- Sec. 179D Energy efficient commercial buildings deduction
- Sec. 30D & Sec. 25E for EVs and Sec. 30C charging stations

New Credits for:

- Sec. 45U Zero-emission nuclear power production credit
- Sec. 40B Sustainable aviation fuel
- Sec. 45V Clean hydrogen production credit
- Sec. 45W Qualified commercial clean vehicles
- Sec. 45Y and 48E Technology neutral clean electricity production and investment credits
- Sec. 45Z Clean fuel production credit

A holistic approach

With uncertain economic conditions and an ever-changing business environment, it is imperative to consider all federal, state, and global tax credits and incentives, some of which may be supplementary to the Section 45X tax credit. Examples may include federal, state, and global tax credits and incentives for research and development, capital investment spend, job creation, training, and more.

In order to generate and monetize these benefits, it is important for your organization to identify, understand, and prioritize the appropriate incentives given your financial and strategic goals. Such an undertaking is oftentimes consuming and complex but can result in significant benefits. Our KPMG network allows you access to our practitioners who specialize in credits and incentives. Our capabilities help you to design and implement an effective incentives strategy given your business needs.

We allow a flexible, phased approach form assessment to delivery to identify, prioritize, and implement credit and incentive opportunities.

Approach from assessment to implementation

The timeline for our preliminary assessment through implementation, as well as the project deliverables, will be tailored based on the size of your company and the number of areas you wish to cover.

Objective

Preliminary assessment
Conduct initial holistic analysis of your data and business model

Formal assessment
Perform detailed holistic assessment of company based on you data and through discussions with key stakeholders

Detailed design
Develop detailed implementation steps, workplan, and timeline for implementation

Implementation
Implement the agreed-upon scope

Maintenance, monitoring, training: The value that KPMG brings when performing a holistic review does not stop after implementation. Beyond the final deliverables and implementation, we will implement ongoing efficiency monitoring (as necessary and agreed upon) and will roll out training as appropriate to all users.

Contact us

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Why KPMG?

An established local team with deep knowledge of industry, location and tax issues will work closely with dedicated global, national, and state and local specialists who bring fresh perspectives on planning opportunities and assist in obtaining these potential benefits. The local team will serve as the primary point of contact to coordinate all discussions and requests with other members of our national and global network.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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