What does the Inflation Reduction Act mean for Energy, Sustainability, and ESG?

AN OVERVIEW OF THE ACT

The Inflation Reduction Act (IRA) is universally accepted to be the biggest climate legislation in American history. The massive act, signed into law by President Biden on August 16, 2022, earmarks $369 billion in subsidies and tax credits for electric vehicles, renewable energy, carbon capture and storage, and other clean energy and sustainability investments.

With the passing of the IRA, the US is projected to reduce total greenhouse gas emissions 40% by 2030, pushing the country into alignment to achieve its Paris Climate Agreement reduction goals.

This bill will transform how the US, currently the second largest carbon emitter after China, sets an example to fight climate change and changes how Americans get their energy for years to come.

KEY TAKEAWAYS OF THE ACT

- **Investments in Renewable Energy**, including tax credits for clean energy as well as energy loan and reinvestment financing for energy related projects.

- **Grants for Energy Conservation** for climate-oriented construction. This includes grants for local governments to update building codes.

- **Funding for Carbon Reductions**, including an expansion of the 179D tax deduction and 45L tax credits for converting commercial real estate and multifamily assets into high-efficiency green buildings. This includes rebates and funding for energy efficiency projects and building retrofits.

- **Expansion of ESG Reporting** through a $5 million allocation to the EPA to support the "standardization and transparency" of corporate climate disclosures in alignment with the new rules outlined in the SEC's Climate Proposal. This is a major signal to companies of all sizes that ESG metrics will become increasingly significant.

- **Corporate Tax Provisions**. Among them are a 15% book-income alternative minimum tax (AMT) for corporations with financial accounting profits over $1B. Private equity firms and hedge funds will continue to be taxed at the lower capital gains tax rate, rather than as income.

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