

## INSIGHTS FOR A COMPLETE GAME PLAN

### INSIGHT// Inflation Reduction Act – Solar ITC vs. PTC Comparison

The Inflation Reduction Act (IRA) – signed into law by President Biden on 8/16/2022 -, has extended the Investment Tax Credit (ITC) as well as reinstated the Production Tax Credit (PTC) for solar projects for roughly the next 10 years. This optionality has led many solar developers, consumers, and investors to ask which of these tax credits makes most sense for their solar projects.

The **Solar ITC** is a cost-based incentive based on the stepped-up cost of the system and is received for the period the project is placed in service. The ITC is increased to 30% for projects placed into service after 1/1/2022, with potential bonus ITC adders for commercial projects that meet certain domestic content requirements (+10% ITC), are in an “energy community” (+10% ITC), and/or are less than 5 MW AC and are low-moderate income focused projects (+10% ITC). Starting 60 days after the IRS issues further guidance, there also are now prevailing wage & apprenticeship requirements for projects > 1 MW AC.

The **Solar PTC** is a production-based \$/MWH incentive for the production output from the solar array and is realized over the first 10 years the project is generating power. The PTC is reinstated at \$26/MWH with an annual adjuster for inflation. The same prevailing wage and apprenticeship rules apply.

Based on the differences between the two credits, the key determinants for choosing whether to realize the PTC vs. the ITC on a solar project are the *project’s total cost* and the *net capacity factor, or NCF* (e.g. the % of electricity generated over the installed capacity of the system). Since solar only produces power in sunlight, the NCF typically ranges from 15-35%.

As shown by the analysis from CohnReznick Capital, the solar PTC generally would apply to utility-scale projects (i.e. tracker systems with economies of scale), while the ITC generally makes sense for commercial & industrial-sized projects (i.e. fixed tilt systems with less economies of scale).

SOURCE: COHNREZNICK CAPITAL

