Key Impacts on Natural Gas Fueling and Vehicles

NGVAmerica secured a three-year extension of the $0.50/gallon Alternative Fuels Tax Credit (AFTC) through December 31, 2024, in the IRA to support fleets of all sizes – public and private – in their transition to and investment in clean natural gas transportation.

Alternative Fuels Tax Credit IRC §§ 6426, 6427

- Extends AFTC for 2023 and 2024, retroactive for 2022
- $0.50 credit per gallon equivalent for use in motor vehicle or motorboats
- $1 biodiesel credit extended in same section
- Hydrogen is removed from this section after December 31, 2022, because of new hydrogen credit in §45V
- No other changes to AFTC
- Starting in 2025 new Clean Fuel Production Credit §45Z is intended to take place of AFTC, Aviation Fuel Credit and Biodiesel Credit
- Current limitation: no credit is available for fuel produced outside the U.S. for use as a fuel

Additional Clean Fuel & Energy Production Tax Credits

Clean Fuel Production Tax Credit IRC §45Z

- $1 production tax credit for clean fuels
- Base credit 20 cents for transportation fuels, 35 cents aviation fuel
- Increased credits worth up to $1 for transportation fuels and up to $1.75 for aviation fuel if wages and apprenticeship requirements met
- Low carbon fuels – must achieve life cycle emission less than 50 kg of CO_2e per MMBtu
- Lifecycle GHG emissions for non-aviation fuels are based on the most recent determinations made by Argonne National Laboratory's GREET Model
- Fuels must be produced in the U.S.
- Transportation fuels are defined as suitable for use in highway vehicle but there is no apparent requirement that fuel be sold for this purpose
- Credit available for 2025 – 2027

Production Tax Credit IRC §45

- Sec. 45 PTC currently encourage electricity production and includes variety of sources (e.g., open/closed loop biomass, landfill, trash)
- Extends incentive and expands it for facilities
- 0.3 cent – 2.5 cent credit per kWh
- Prevailing wage/apprenticeship required for increased credit
- Credit is for first 10 years of production
- Construction must begin by December 31, 2024
- 10% bonus domestic content
- 10% bonus located in energy community
- Qualified biogas property that produces electricity and is placed into service after 2022 does not qualify for §45 credit if allowed under §48

Investment Tax Credit IRC §48

- Sec. 48 credit for capital investment in equipment used to produce electricity
- Expanded to include equipment that produces fuels like biogas
- Credit 2 – 6% or 10 – 30% if meet prevailing wages and apprenticeship requirements
- 10% bonus credit domestic content
- 10% bonus credit located in energy community
- Construction must begin by December 31, 2024
- Can't claim §45 and §48 credit – one or the other must be claimed
- No restriction on claiming ITC and AFTC

Alternative Fuel Refueling Tax Credit IRC §30C

- 30C refueling credit of 30% or $30,000 credit for depreciable qualifying fueling property and $1,000 residential fueling is extended for 2022
- 2023 and later credits worth 30% or $100,000 for depreciable property if meet wage requirements and apprenticeship rules (if not, only 6% credit)

Other big changes:

- Limited to rural areas and low-income areas
- Expanded so that credit applies to each single item of qualifying equipment placed in service at a location
- Expires December 31, 2032

Key Impacts on Natural Gas Fueling and Vehicles

Vehicle Tax Credits & Emissions Grant Programs

Clean Vehicle Credit IRC §30D & Used Clean Vehicle Credit IRC §25E

- Section 30D provides up to $7,500 tax credit for plug-in electric vehicle and plug-in hybrid electric vehicles
- Section 30D provides up to $8,000 tax credit for light-duty fuel cell vehicle
- Section 30D provides up to $40,000 tax credit for heavy-duty fuel cell vehicle
- Section 25E (new credit) provides up to $4,000 tax credit for used PHEV or FCV two or more years old
- Credits are subject to income limits, cap on vehicle costs, domestic minerals, domestic battery content, must be final assembled in U.S.
- Big change removes cap on number of qualifying vehicles and extends credit to 2032

Qualified Commercial Clean Vehicle IRC §45W

- Provides tax credit worth lesser of 30% of vehicle cost (15% if gasoline or diesel ICE) or incremental cost
- Less than 14,000 lb. GVWR must have 7 kWh battery or more for up to $7,500 credit
- 14,000 lb. GVWR or greater must have 15 kWh battery or more for up to $40,000 credit
- On-road and non-road mobile equipment qualify
- Hybrid vehicles qualify if "propelled to a significant extent by an electric motor which draws electricity from a battery."
- Effective starting in 2023 – expires December 31, 2032
- Requirements – minerals, battery, U.S. assembled, etc.

Methane Incentive Program & Fees

- Provides $850M generally to support grants, rebates and loans for reducing methane emissions, additional $700M for marginal conventional wells
- Funding available through 2028
- Imposes new fees on natural gas and oil industry related to consumption of, losses, or waste of methane
- Fees start in 2024 and range from $900 – $1,500 per metric tons of methane emitted above certain thresholds
- Estimated to raise $6.3B over ten years

Special Requirements/ Terms Defined

Domestic content. Multiple provisions have domestic content requirements for manufacturing, assembly, and component sourcing (generally within North America or among U.S. trading partners). There are slim exceptions detailed for select provisions. Most domestic content requirements become more stringent over time. Some allow for partial credit if not fully met. Some allow for no credit if content sourced from China.

Energy community. Defined as a brownfield site, an area with significant fossil fuel employment, or a census tract or any immediately adjacent census tract in which, after December 31, 1999, a coal mine has closed, or, after December 31, 2009, a coal-fired electric generating unit has been retired.

Prevailing wage rates are the most recently published prevailing wages for the locality in which the project is located.

Apprenticeship requirements require that the taxpayer ensure that qualified apprentices perform no less than the applicable percentage of total labor hours of the project. The applicable percentage for purposes of this requirement is 10 percent for projects for which construction begins in 2022. This rate is increased to 12.5 percent in 2023, and 15 percent thereafter. Participation is required for each taxpayer and any contractor or subcontractor that employs four or more individuals to perform construction of a qualified facility.