



Clean Energy and the Rural Economy

Inflation Reduction Act of 2022 | Office of U.S. Senator Tina Smith

Tax Credits for Clean Energy

The *Inflation Reduction Act* makes a \$260 billion total investment in clean energy tax credits, which are the biggest piece of the climate provisions. All of the tax credits include direct pay for entities that can claim nonprofit status (i.e., municipal power, cities, electric coops, Tribes, etc.). The credits also have higher credit values for projects that meet wage requirements, use domestic materials and manufacturing, and for projects located in low-income or “energy communities” (former fossil fuel communities). All of the credits are available for projects that begin in the next 10 years, allowing ample time for project planning.

Direct Pay

This is a big win and Senator Smith was instrumental in getting direct pay for non-profits into the package. Direct pay allows for a direct cash payment in lieu of a tax credit. Direct pay makes the credits much more useable by smaller, nonprofit entities and is generally more efficient and inclusive.

Extension of the Biofuel Credit & New Credit for Sustainable Aviation Fuel

The *Inflation Reduction Act* recognizes the importance that biofuels play in reducing emissions. It extends tax credits for biodiesel and advanced biofuels and provides a new credit for sustainable aviation fuel. It also includes \$500 million for biofuel infrastructure.

Carbon Capture Storage Credit

Senator Smith was directly involved in negotiating language for this credit, which extends and improves credits for industrial facilities, biofuel facilities, and power plants. It also includes a generous credit for facilities that directly pull carbon out of the air, based on a bill lead by Senator Smith.

Other New Credits

The *Inflation Reduction Act* includes new credits for nuclear, hydrogen, battery storage, fuel cells, biogas, interconnection property, and micro-grids.

Extension of Other Credits

The bill also contained an extension of the investment and production tax credits for wind, solar, geothermal

Rural Electric Coop Assistance

\$9.7 billion for renewable energy systems, zero-emission systems, and carbon capture and storage. This funding could be used for closure of fossil facilities to shift investments towards zero-carbon technologies (i.e., debt retirement). Senator Smith’s played an instrumental role in developing this program.

Electric Loans for Renewable Energy

\$1 billion for the Section 317 forgivable loan program that can be used by municipalities and small electric systems to build renewable energy for rural residents.

Rural Energy for America Program (REAP)

The legislation included over \$1.7 billion for REAP, a program that provides financial assistance to agriculture producers and rural small businesses to purchase, install, and construct renewable energy systems or energy efficiency improvements. REAP is currently at \$50 million per year (based on 2018 Farm Bill). This would move it up to \$220 million per year – a 350% increase in annual funding!).

This provision is based on a Senator Smith bill and has a set-aside for underutilized technologies like distributed wind and biogas.

Climate Smart Agriculture

Over \$20 billion to support climate-smart agricultural practices, mostly through additional funding for existing conservation programs like Environmental Quality Incentives Program (EQIP), Conservation Stewardship Program (CSP), Agricultural Conservation Easement Program (ACEP), and Regional Conservation Partnership Program (RCPP). The funding is available for five years (through 2026) to the programs as follows (note: funding is not equal across the five years, with slightly more coming in later years):

- **EQIP** – \$8.45 billion over 5 years (FY 2022 budget = \$1.85 billion; 89% annual increase)
- **CSP** – \$3.25 billion over 5 years (FY 2022 budget = \$800 million; 81% annual increase)
- **ACEP** – \$1.4 billion over 5 years (FY 2022 budget = \$450 million; 62% annual increase)
- **RCPP** – \$6.75 billion over 5 years (FY 2022 budget = \$300 million; 450% annual increase)

Forest System Restoration

Includes funding for grants to support healthy, fire resilient forests, state and private forest conservation, and urban tree planting. This includes: \$1.8 billion for hazardous fuel reduction programs, \$200 million for vegetation and water resource management projects, \$1.5 billion for tree planting, and \$450 million for forest owners to implement projects that sequester carbon.

Transmission

The bill includes \$2 billion to build out transmission infrastructure and \$760M for transmission siting. This funding is for high voltage interstate or offshore transmission lines and can be used for study/analysis, to facilitate negotiations and settlements, to engage in regulatory meetings, or for grants to state/local/tribal governments for economic development projects in communities affected by construction of transmission. The goal is to shorten approval time for projects and increase chances of success. The siting authority is required to make a decision within two years of receiving funds. Senator Smith was a leading advocate for this funding.