



NATIONAL CONFERENCE OF STATE LEGISLATURES

Inflation Reduction Act of 2022 Provisions

Summary Prepared by NCSL Staff

Budget and Revenue Provisions:

Increased Support for IRS

The Inflation Reduction Act of 2022 (IRA) seeks to address the tax gap—the difference between what is owed to the federal government and what is collected—by providing \$80 billion in additional Internal Revenue Service (IRS) funding across 10 years. The increased funds provide a [69% increase in enforcement activities, a 153% increase modernization of IRS business systems, a 53% increase in operation support, and 9% increase in taxpayer services](#). The Congressional Budget Office estimates the support would raise \$204 billion in additional revenue for a net increase of \$124 billion for the government.

Tax Provisions

- The legislation uses tax penalties and credits across multiple policy sectors, notably in energy and environment, corporate stock and book taxes, and to force pharmaceutical companies into drug pricing negotiations.

Taxes on Corporate Entities

- Imposes a 15% corporate alternative minimum tax, or book tax on adjusted financial statement income for corporations with profits more than \$1 billion. This mandates that companies who have a larger book tax pay more than their regular tax for the year. This closes a perceived loophole where there was a discrepancy between the income companies reported on certain financial statements—such as those provided to investors—versus what they reported on tax returns. The measure becomes effective for tax years beginning after Dec. 31, 2022.
- Contains a new tax on corporate stock buybacks. It is argued that companies have used buyback as a tax-free alternative to dividends as means to transfer profit to the shareholder. Firms seeking to repurchase their stock from holders, increasing the stock's value in the process, will be penalized with a 1% excise tax of the fair market value.

Tax Credits for Energy and Environment (Additional Sector Analysis Below)

- Extends various green energy tax incentives supporting the environment and clean energy to 2025. These incentives include commercial credit for renewable electricity

infrastructure development and production and consumer energy benefits focused on renewable energy generation for the home.

- Extends credit for energy properties to 2035 encouraging the development of facilities such as wind or solar farms and provides additional credit for solar and wind facilities placed in service with low-income communities.
- Extends tax credits for carbon capture investments to 2033 and renews several existing incentives, including credits for alternative fuels, carbon capture facilities, and energy efficiency improvements for residential and commercial properties, among others.
- Makes permanent a tax on coal production to support Black Lung Disability Fund and increases royalty rates on crude oil, gas and imported petroleum products for environmental cleanup.
- Provides tax credits for lower- and middle-income buyers to bolster consumer demand for electric vehicles with a \$4,000 incentive for used cars and \$7,500 for new vehicles as well as incentivizes battery production.

ACA and Pharmaceuticals (Additional Sector Analysis Below)

- Extends the Affordable Care Act (ACA) premium tax credits through 2025 with increased credit for participants between 100% and 400% of the federal poverty line and expanded eligibility to those participants above 400% of the federal poverty line.
- Places up to a 95% excise tax on pharmaceutical manufacturers as a penalty for noncompliance in negotiating drug prices for Medicare.

Deficit Reduction

- The IRA would result in an overall reduction in the US deficit. The increased tax revenue and savings from drug pricing reforms, even with offsetting investments in energy and the environment, would reduce the deficit by nearly [\\$300 billion from 2022-2031](#).

Agriculture, Energy, Environment and Transportation Provisions

- Overall, the agriculture, energy, environment and transportation provisions of the IRA would provide tax certainty for energy technologies, including renewables, energy storage, nuclear and carbon capture, among others.
- Includes a methane fee on oil and gas operations, as well as a host of provisions directing more lease sales on public lands and waters for fossil fuel development as the Department of the Interior (DOI) also ramps up leasing for offshore wind. An initial analysis of these provisions from the Rhodium Group estimated the bill would reduce the country's net greenhouse gas emissions by 31% to 44 % below 2005 levels in 2030 compared to the 24% to 35% drop expected from current policies.

Agriculture Provisions:

Voluntary Conservation Measures

- Provides a significant amount of funding to conservation efforts, with a direct total appropriation to the U.S. Department of Agriculture (USDA) of more than \$46 billion.
- Adds nearly \$20 billion in additional funding to several existing Farm Bill conservation programs, which provide financial and technical assistance to private landowners to voluntarily implement conservation practices on agricultural land.
- Program funds would be directed to climate change-related goals and would prioritize mitigation activities. Programs and funding include:
 - \$8.45 billion for the [Environmental Quality Incentives Program](#).
 - \$6.75 billion for the [Regional Conservation Partnership Program](#).
 - \$3.25 billion for the [Conservation Stewardship Program](#).
 - \$1.4 billion for the [Agricultural Conservation Easement Program](#).
- Other programs with increased investment include:
 - \$1 billion to the Natural Resource Conservation Service (NRCS) to provide conservation technical assistance through 2031.
 - \$300 million for the NRCS to carry out a program to quantify carbon sequestration and carbon dioxide, methane and nitrous oxide to inform the USDA Greenhouse Gas Inventory and Assessment Program.

Underserved and Disadvantaged Communities

- Provides \$2.85 billion for assistance and support for underserved farmers, ranchers and foresters.
 - Of that, \$2.2 billion is allocated to financial assistance to farmers, ranchers or forest landowners determined to have experienced discrimination in farm lending programs, and the remaining is used to improve land access for underserved farmers, ranchers and forest owners, and providing internships and pathways to the agricultural sector or land-grant institutions.

Forestry

- Provides \$5 billion in funding for forest management, planning and restoration activities for both federal and nonfederal forests. The funding includes:
 - \$2.15 billion for management of the National Forest System (NFS), including funding for hazardous fuel reduction or vegetation management projects on the NFS lands.
 - \$2.75 billion to support grants and other financial assistance for nonfederal forest management, including funding for urban and community forestry programs.

- The grant programs would support climate mitigation activities on nonfederal forests, facilitate participation in forest carbon markets, and support the development and application of innovative wood products.
 - Of that \$5 billion, \$700 million is available for the Forest Legacy Program to provide grants to states to acquire land.

Rural Energy Development

- Supports renewable energy initiatives for rural development, with \$13.3 billion for farm bill energy title programs—the funding included is broken down below:
 - \$9.7 billion for loans and grants to electric cooperatives to purchase renewable energy, renewable energy systems, zero-emission systems, and carbon capture and storage systems, to deploy such systems or make energy efficiency improvements to generation and transmission assets, with a requirement to prioritize projects that will aid disadvantaged rural communities.
 - \$1.72 billion for the [Rural Energy for America Program](#), with additional funding to be used for underutilized renewable energy technologies and program technical assistance.
 - Reduces the match for those grants from 75% to 50%.
 - \$1 billion in additional funding for electric loans for renewable energy via a subsidy under Section 317 of the Rural Electrification Act.
 - \$500 million for competitive grants for infrastructure improvements for blending, storing, supplying, or distributing biofuels, including installation, retrofitting, or upgrading fuel dispensers for higher ethanol and biodiesel blends (E15 or higher), with a 25% match requirement.

Environment Provisions:

- Provides a significant amount of funding and authority for the Environmental Protection Agency (EPA), with the EPA set to receive over \$41 billion.
- Offers a standard definition of “greenhouse gas,” which includes air pollutants, carbon dioxide, hydrofluorocarbons, methane, nitrous oxide, perfluorocarbons and sulfur hexafluoride.
 - Includes funding to improve the efficiency of environmental review permitting and project approvals.

Greenhouse Gas Reduction Fund

- Gives the EPA discretion over the \$27 billion Greenhouse Gas Reduction Fund, allowing the agency to invest in clean energy technologies via green banking, offering federal financing for projects. The Greenhouse Gas Reduction Fund would invest in nonprofit, state and local financing institutions designed to rapidly deploy low- and zero-emission technologies by leveraging investment from the private sector. States, municipalities

and tribal governments could share an additional \$7 billion in funding under the program, and funds will remain available until September 2024.

Climate Pollution and Port Air Pollution Reduction Grants

- Provides \$5 billion for state planning and implementation of greenhouse gas reduction programs,
- Provides EPA with \$250 million for planning grants, and \$4.75 billion for implementation grants for programs, policies, measures, and other investments to achieve or facilitate GHG reductions. Eligible entities include states, air pollution control agencies, municipalities and tribal governments.
- Provides an additional \$3 billion to establish a program to award grants and rebates for the purchase and installation of zero-emission equipment and technology at ports, as well as the development of climate action plans at ports. Eligible funding recipients include port authorities, a state, regional, local or tribal agency with authority over a port authority, or an air pollution control agency.

Vehicle Pollution Reduction Grants

- Provides \$1 billion to establish a new program—Clean Heavy-Duty Vehicles—to award grants and rebates to states, local governments and nonprofit school transportation associations to replace certain heavy-duty vehicles, such as garbage trucks and school busses, with zero-emission vehicles.
 - Of that funding, \$400 million is provided for communities located in areas designated as nonattainment for air pollution, or those which are heavily polluted.
 - Allocates \$60 million for the EPA’s Diesel Emissions Reduction Act for grants, rebates and loans to identify and reduce diesel emissions resulting from goods movement facilities and vehicles servicing such facilities in low-income and disadvantaged communities to address the health impacts of these emissions in these communities.

Methane Emissions Reduction Program

- Creates a methane emissions fee, starting in 2024, that will be imposed and charged by the EPA on facilities supporting oil and gas production—the charge is only on emissions above the set thresholds, and any emissions due to delays in gathering line and transmission infrastructure environmental permitting are exempt. Those emitting more than 25,000 metric tons of carbon dioxide annually will have to pay the fee, which increases from \$900 per ton in 2024 until \$1,500 per ton in 2026.

- Provides \$1.55 billion in financial incentives for industry subject to the methane reduction program to better monitor methane emissions and to help address legacy pollution from the oil and gas sector.

Drought Response & Water Funding

The bill includes several major water provisions, the most notable being \$4 billion for western drought response via the Bureau of Reclamation. The funding will be used for “grants, contracts, or financial assistance agreements” in the 17 western states, with priority for the Colorado River basin and other severely dry areas. Options include compensation for reducing water diversions, ecosystem restoration, and conservation projects. Additionally, the bill provides \$550 million for domestic water programs in disadvantaged communities of which the funds will cover 100% of the cost of planning, design, or construction of such water projects, and \$12.5 million for emergency drought funding for tribes.

Environmental Justice and Disadvantaged Communities

- State, local and tribal governments will be offered a wide range of grants and financial incentives to reduce air pollution, with an emphasis on reaching disadvantaged populations, environmental justice and fence-line communities.
- Provides \$3 billion to the EPA to award grants and provide technical assistance for environmentally-related activities that benefit disadvantaged communities. Eligible projects include: pollution monitoring, urban heat mitigation, facilitating engagement of disadvantaged communities in state and federal public processes, and more.
- Provides \$32.5 million to the Council on Environmental Quality to collect data and share information on cumulative impacts of pollution and temperature rise on communities, as well as to identify and map where those environmental harms and climate impacts are disproportionately burdensome.

Hydrofluorocarbons

- Provide \$38.5 million to implement the American Innovation and Manufacturing Act of 2020 passed in 2021, which directed the EPA to phase down hydrofluorocarbons. Of these funds:
 - \$20 million is provided for general implementation of the AIM Act.
 - \$3.5 million is provided to fund the deployment of implementation and compliance tools.
 - \$15 million is to fund competitive grants for reclaim and innovative HFC destruction technologies.

Energy Provisions:

Wind, Solar, Oil and Gas on Federal Lands

- Includes provisions that would increase the number of energy production lease auctions the DOI is required to hold.
- Requires the DOI to hold sales of drilling rights in the Gulf of Mexico and Alaska's Cook Inlet as well as ensure that lease auctions for new renewable power projects on federal land and water were contingent on future oil and gas auctions.
 - Specifically, DOI would only be able to issue new onshore wind and solar rights-of-way on federal land if the agency had held an onshore oil and gas lease sale in the prior four months.
 - For offshore wind, the requirement would be for an auction of offshore oil and gas leases spanning at least 60 million acres in the preceding year.
- Reinstates an auction of leases in the Gulf of Mexico completed in November 2021, but later undone by a federal judge.

Offshore Wind Production

- Would undo a 10-year moratorium on offshore wind leasing established by former President Donald Trump for Florida, Georgia, North Carolina and South Carolina, as well as require the DOI to begin offshore wind planning for the U.S. territories by 2025, including American Samoa, Guam, Puerto Rico and the U.S. Virgin Islands.
- Appropriates \$100 million for transmission planning for offshore wind in the northeast.

Future Permitting Legislation

Though not included in the Inflation Reduction Act itself, the [tentative agreement](#) between Senate Democrats includes a promise to take up separate legislation in the fall that would enact significant changes aimed at both speeding up and improving the federal and state infrastructure permitting process.

Though still unofficial, this legislation is expected to require federal permitting decisions under the National Environmental Policy Act be made in under two years, while states would still have one-year to complete the Section 401 process as it applies to any project, or activity, which may result in a discharge into waters of the United States.

The president would designate high priority infrastructure projects that receive priority decision making as well as provide new authority for the Department of Energy and Federal Energy Regulatory Commission to site interstate. However, because such provisions would not comply with the rules for reconciliation, Senate Majority Leader Chuck Schumer (D-N.Y.) has indicated that permitting legislation will be attached to an end of the year continuing resolution.

Consumer Home Energy Upgrades

- Provides significant incentives for low- and moderate-income households to electrify their homes, by replacing fossil-fuel furnaces, boilers, water heaters and stoves with high-efficiency electric devices.

- The High-Efficiency Electric Home Rebate Program would provide \$4.28 billion for fiscal 2022 for grants for states to implement a high-efficiency electric home rebate program. It would provide an additional \$225 million for tribes to implement a similar program. State energy programs would then provide rebates for qualified electrification projects such as electric heating and cooling or high-efficiency electric stoves.
 - Provides a rebate up to \$8,000 for installed heat pumps that can both heat or cool homes, and a rebate up to \$1,750 for a heat pump water heater.
 - Homeowners can also obtain up to \$840 to offset the cost of a heat pump clothes dryer or an electric stove, such as a high-efficiency induction range.
 - If a home would require an electrical upgrade to install any of the above items, an owner would receive up to \$4,000 in rebates. Owners would be limited to \$14,000 in total rebates though an owner's income could not be greater than 150% of the median area income.
- The Home Owner Managing Energy Savings” or HOMES program would provide \$4.3 billion for fiscal 2022 for state energy offices according to the State Energy Program formula effective Jan. 1, 2022. State energy offices will be required to submit plans to implement the program, including procedures to calculate energy usage and savings. States cannot use more than 20% of grant funds for planning, administration, or technical assistance. Provides rebates for homeowners and aggregators for energy savings retrofits on single family homes and multifamily buildings
- For homeowners who do not qualify for these rebates, the IRA provides for a general tax credit of up to \$2,000 to install heat pumps as well as other energy efficiency measures, for tax credits up to \$1,200 a year.
- Residential solar panel installation would receive a 30% tax credit through Dec. 31, 2034, declining to 26% for solar panels put into service after Dec. 31, 2032, and before Jan. 1, 2034.
- Homeowners who install solar battery systems with at least 3 kilowatt-hours of capacity would also qualify for the tax credit.

Tax Credits and Royalty Rates for Energy production

- Increases and expands federal government support for energy production that is carbon free, both fossil and renewable.
- Prior to this bill, Congress had generally only approved these types of tax credits on an annual basis. Both the investment and production tax credit for renewable energy production (wind, solar, geothermal, energy storage) would be extended for fossil energy sources that store their carbon emissions.

- Increases the tax credit to as high as \$85 per metric ton for carbon capture from the current level of \$50.
- Nuclear energy would receive a 10-year production tax credit for nuclear energy producers. The funding would be in addition to a \$6 billion program passed by Congress last year as part of the infrastructure bill.
- Creates a new credit for the production of clean hydrogen as well as for the domestic production of clean fuels that would be based on their carbon emissions.
- Continues existing tax credits for biodiesel, as well as a new credit for sustainable aviation fuel.
- Increases federal tax credits for energy production.
- Increases royalty rates that energy producers would be required to pay the federal government for energy produced on federal land or ocean.
- Increases the minimum bid per acre in federal lease sales from \$2 to \$10 and a gradual increase in rental rates to \$15 per year.
- Royalty rates for offshore oil and gas production would see an increase in the minimum to 16.66% and a maximum of 18.75%.
- Onshore leasing would strike the minimum oil and gas royalty set in 1920 of 12.5% and replace it with 16.66%.
- Increases bonding rates for oil leases on public land—financial assurances secured prior to development that ensure funds are available for cleanup.

Department of Energy Loans and Assistance

- Provides \$5 billion in appropriations for the Department of Energy’s loan programs, which could support up to \$250 billion in loans or refinancing guarantees for energy infrastructure projects.
 - The loans would be focused on projects that “retool, repower, repurpose, or replace energy infrastructure no longer operating, as well as enable existing energy infrastructure to avoid, reduce, utilize, or sequester air pollutants and greenhouse gas (GHG) emissions, which would be defined as including carbon dioxide, hydrofluorocarbons, methane, nitrous oxide, perfluorocarbons, and sulfur hexafluoride.”
- The DOE would receive \$2 billion for direct loans to nonfederal borrowers to construct or modify electric transmission facilities deemed necessary to the national interest.
- The DOE would also receive \$5.8 billion to provide financial assistance for domestic, nonfederal, nonpower industrial or manufacturing facilities engaged in energy intensive industrial processes to purchase, install, retrofit, or upgrade advanced industrial technology to reach net-zero GHG emissions.
- Provides the DOE with \$3 billion for loans for the advanced technology vehicles manufacturing incentive program to support facilities in the U.S. in producing low or zero GHG emission vehicles as well as \$2 billion for grants for domestic production of

efficient hybrid, plug-in electric hybrid, plug-in electric drive and hydrogen fuel cell electric vehicles.

Building Code Adoption

- Provides \$1 billion to support state and local governments to adopt updated building codes.
- \$300 million would be provided to the DOE to support states and local communities adopt residential and commercial building energy codes that meet or exceed the 2021 International Energy Conservation Code, the ASHRAE Standard 90.1-2019, or some combination of those codes.
- Provides an additional \$670 million for states and local governments to adopt building codes to meet or exceed the zero-energy provisions in the 2021 IECC and to implement a plan to achieve compliance with newly adopted building energy codes.

Transportation Provisions:

The Neighborhood Access and Equity Grants would allow states, along with local governments to apply for federal grants aimed at undoing the effects of past road construction that divided neighborhoods, similar to a program included in the infrastructure law. Though similar to the Reconnecting Communities Pilot Program in the Infrastructure law, this new program has a slightly expanded list of eligible uses of funds.

- Includes \$2 billion for the Federal Highway Administration to establish a program to reimburse applicants, including states, that use low-carbon materials or products in infrastructure construction projects.
- USDOT would receive \$2.25 billion for grants and rebates for port authorities, air pollution control agencies, private entities, to install zero-emission port equipment or technology.
- An additional \$750 million would be provided for ports in areas that do not meet national ambient air quality standards.

Electric Vehicles

- Includes a new tax credit program for the purchase of new (\$7,500) and used (\$4,000) electric vehicles beginning in 2024 and lasting through 2032. Unlike the previous version, which limited each manufacturer to only 200,000 vehicles, the new program does not set a cap on the number of vehicles, but rather on the income of the buyer, the cost of the vehicles and the vehicle's components. It is designed to help promote the domestic production of the vehicles and their batteries.

- Tax credit would only be available for vehicles that cost less than \$55,000 for new cars and \$80,000 for pickups and SUVs.
- Credits would only apply to buyers with an income level of \$150,000 for a single filer and \$300,000 for joint filers for new vehicles, and at \$75,000 and \$150,000 for used cars.
- Should those requirements be met, half of the tax credit would apply if the vehicles that were built with minerals extracted or processed in a country the U.S. has a free trade agreement with, while the other half would apply if the vehicle contained a battery that includes a percentage of components that were manufactured or assembled in North America.
 - The critical-minerals content of an EV battery must be 40% by the end of next year and at 80% after 2026. A battery must be 50% assembled in North America by the end of 2023 and reach 100% assembly by 2028.
 - Should a vehicle and buyer comply with these conditions, a buyer would be allowed to receive discounts at the point of sale that are equal to the value of their credits for the first time.
 - Additionally, though the bill does not expressly outline any waivers, how these requirements are defined and applied by the Treasury Department and IRS could provide some leeway for vehicles to comply that do not currently.
- Though the bill does not include new funding for states to build out EV charging, the bill does increase the tax credit available for EV charging construction as well as allowing it to be used multiple times on a property.

Healthcare Provisions:

Affordable Care Act Premium Tax Credits

- The Affordable Care Act (ACA) extends temporary enhancements to premium tax credits until 2025, with larger credits available for families with household income between 100% and 400% of the federal poverty level and expanded eligibility to those with incomes above 400% of the FPL.
 - The credits were originally created under the ACA, temporarily enhanced by the American Rescue Plan Act, and are set to expire at the end of 2022.

Prescription Drugs

- Empowers Medicare to negotiate directly for high-cost prescription drugs covered by Parts B and D by authorizing the Health and Human Services (HHS) Secretary to create a Drug Price Negotiation Program to negotiate the prices of 10 high-cost prescription drugs in 2026 and another 15 drugs in 2027 and 2028, rising to 20 drugs annually in

2029 and beyond. Drugmakers who do not comply would face an excise tax up to 95% and/or other hefty monetary penalties, in addition to a fine of \$100 million for providing false information.

- Provides \$3 billion in fiscal year 2022 to implement the program. According to the Congressional Budget Office, the prescription drug provisions in the IRA would reduce the federal deficit by [\\$288 billion](#) over 10 years (2022-2031).

Out of Pocket Drug Costs

- Caps out-of-pocket costs of prescription drugs under Medicare Part D for beneficiaries at \$2,000 a year starting in 2025, including an option to break the annual amount into monthly payments. Once the cap is reached, Medicare Part D would pay 20% of the cost of brand name drugs and 40% of generic drugs with drug manufacturers responsible for the balance.
- The HHS would also be directed to enter agreements with drug manufacturers to provide discounts on certain drugs beginning 2025. Manufacturers who do not comply would be subject to penalties equal to 125% of the discounted amount.

Other out of pocket limits provided under the IRA:

- Further limits out of pocket costs for low-income seniors between 135% and 150% of the poverty line starting Jan. 1, 2024, and people with disabilities.
- Makes vaccines free under Medicare Part D beginning 2023.
- Creates monthly cap of \$35 for insulin costs under Medicare Part D beginning 2023-2025. For 2026 and beyond, insulin costs would be capped at the lesser of \$35 a month or 25% of a maximum price to be negotiated by HHS. Private insurers would be required to cover at least one type of insulin with similar caps.

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