Key IRA Tax Credits, CHIPS Act Support U.S. Manufacturing Expansion & Innovation

The American Chemistry Council (ACC) is seeing growing interest in initiating and expanding U.S. manufacturing activity as a result of key tax credits included in the Inflation Reduction Act and the CHIPS and Science Act. In particular, the tax credits that incentivize manufacturing to support the production of **clean hydrogen, new clean vehicles, semiconductors, carbon sequestration, and critical minerals and electrode active material** are important to the business of chemistry. Our companies create many of the materials, inputs, and technologies used to produce these items.

ACC urges policymakers to retain IRA tax credits that incentivize vital domestic manufacturing activity, expansion, and innovation and strengthen U.S. competitiveness. In addition, we urge careful implementation of these tax credits consistent with Congressional intent, with specific recommendations for improvement.

Priority IRA Tax Credits for ACC Members

CLEAN HYDROGEN PRODUCTION TAX CREDIT (SECTION 45V) – The chemical sector is a primary source of hydrogen today and a promising sector for lower-emissions hydrogen production and use in the future. The IRA's 45V tax credit and the Bipartisan Infrastructure Law's Regional Clean Hydrogen Hubs program are essential catalysts for rapid, nationwide investment in a lower-emissions hydrogen economy. We are concerned that proposed regulations issued under Section 45V have created barriers to growth of the nascent hydrogen industry. Effective implementation of this credit should include support for diverse sources and processes, including all forms of lower-emissions hydrogen production technologies; regulatory certainty to enable timely investment decisions; access to infrastructure, feedstocks, and innovative chemistries; and complementary policies for building out a lower-emissions electric grid.

TAX CREDIT FOR CARBON SEQUESTRATION (SECTION 45Q) – Section 45Q provides a tax credit for capturing and sequestering, disposing or utilizing carbon dioxide and other qualified carbon oxides. ACC members are taking action to reduce the industrial greenhouse gas intensity of their supply chains, operations, and products. Our strategy includes consideration of a broad range of emissions sources and sinks, including upstream fuel and feedstock emissions, manufacturing process emissions, energy emissions from heat and power, avoided carbon during the use phase, and both emissions and mitigation during the end-of-life and recycling phase. Each point in the lifecycle raises novel technology challenges. Even where technologies have been demonstrated for a particular application or industrial segment, translation and validation of that technology at commercial scale may be costly, time consuming, and risky. Our companies are among the leaders and participants in exploring the development and use of CCS, with significant investment projects underway.

ADVANCED MANUFACTURING PRODUCTION TAX CREDIT (SECTION 45X) – This credit provides incentives to domestically produce critical minerals and electrode active material. Unfortunately, while the statute was designed to onshore U.S. manufacturing and end reliance on foreign sourcing, the implementation guidance issued for the credit thwarts this goal. The statute provides the credit shall be "10% of the costs incurred by the taxpayer with respect to production," but the proposed regulations excluded from the calculation direct and indirect material costs and any costs related to the extraction, production, or acquisition of raw materials. This narrow reading significantly impacts the value of the anticipated credit and has already caused some companies to change course and pause their investment activities in the U.S.

CLEAN VEHICLE TAX CREDIT (SECTION 30D) – ACC has provided comments under Section 30D regarding the foreign entity of concern rules and non-traceability rules from the U.S. Department of the Treasury and the Internal Revenue Service. As currently implemented, Section 30D would allow for the domestic battery supply chain to be vulnerable to foreign producers, especially from foreign entities of concern. Unless the loopholes are closed in the final rule, U.S. investment in the domestic battery supply chain will be at significant risk.

ADVANCED MANUFACTURING INVESTMENT TAX CREDIT FOR SEMICONDUCTORS (SECTION 48D) – ACC has provided comments on the Treasury Department's proposed rules implementing the Section 48D tax credit established by the CHIPS and Science Act of 2022. We believe Congress intended for Treasury and the IRS to broadly interpret the term 'semiconductor manufacturing equipment' when issuing guidance as to how the Section 48D tax credit should be applied. We have urged that the final regulations harmonize the tax credit with the U.S. Department of Commerce interpretation such that it includes facilities whose primary purpose is producing materials integral and essential to manufacturing of semiconductors.