

Inflation Reduction Act Workshop

Please mute your microphones

August 23, 2022



ALLIANCE
FOR AUTOMOTIVE
INNOVATION

Disclaimer:

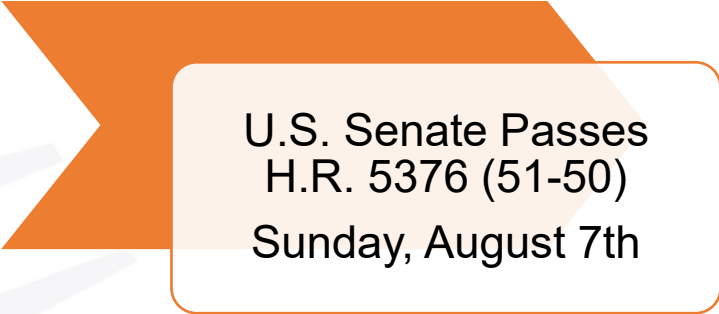
The following represents Auto Innovators staff's interpretation of certain provisions of the Inflation Reduction Act, and it should not be construed as legal advice. Companies are encouraged to review the Act with their compliance counsel.

Agenda

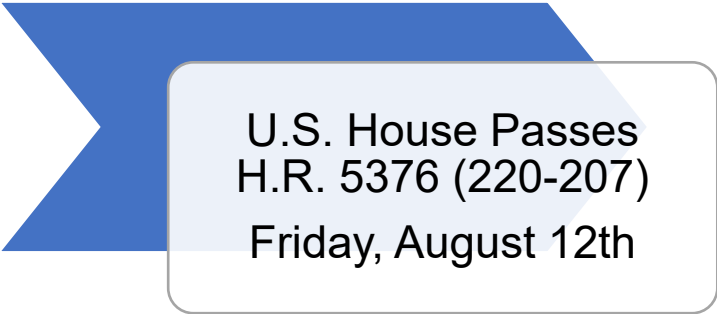
- Inflation Reduction Act Timeline
- Manufacturing Tax Credits (45X)
- Alternative Fuel Refueling Property Credit (30C)
- Advanced Energy Project Credit (48C)
- Advanced Technology Vehicle Manufacturing (ATVM)
- Domestic Manufacturing Conversion Grants
- Retail – New EV Tax Credit Provisions (30D)
- Retail – Used EV Tax Credit Provisions (25E)
- Commercial – EV Tax Credit Provisions (45W)
- Key Treasury Guidance Areas

Implementation Timeline

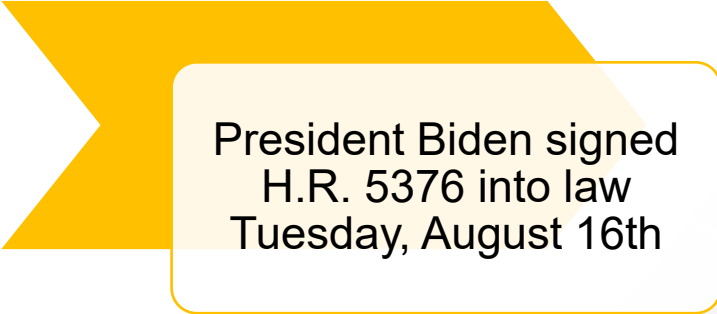
Inflation Reduction Act Timeline



U.S. Senate Passes
H.R. 5376 (51-50)
Sunday, August 7th



U.S. House Passes
H.R. 5376 (220-207)
Friday, August 12th



President Biden signed
H.R. 5376 into law
Tuesday, August 16th

Manufacturing Tax Credit Provisions

Inflation Reduction Act: Supply Chain

Advanced Manufacturing Production Credit – Section 13502 (45X)

- Provides an outline of credits available to those who produce materials used for clean energy production in trade or business with an unrelated person. Materials eligible for such credits as outlined in this section are those used to produce:
 - Solar Modules
 - Wind Turbines and Offshore Vessels
 - Torque Tubes
 - Structural Fasteners
 - Inverters
 - Electrode Active Materials
 - Battery Cells (\$35 kWh)
 - Battery Modules (\$10-45 kWh)
 - Applicable Critical Minerals (10 percent of costs incurred)
- Provides specific definitions and requirements for purpose, capacity, and context of production for such materials, as well as the credit rates that apply to each specification, respectively.
- Includes phase-outs on these credits beginning in 2030, which impose a reduction of 25 percent per year between 2030 and 2033, when the credit becomes completely phased out (however, the phase-out does not apply to the credits for critical minerals).

Inflation Reduction Act: Infrastructure

Alternative Fuel Refueling Property Credit (30C) – Sec. 13404

- Extends the federal income tax credit on the cost of any qualified alternative fuel vehicle refueling property through 2032 (85 % ethanol, natural gas, CNG, LNG, LPG, **hydrogen**, biodiesel, **electricity**).
- Six percent base rate and thirty percent bonus rate structure based on prevailing wage requirements for property subject to recapture, and otherwise 30 percent regardless.
- Allowable on costs up to \$100,000 of the cost of each alternative refueling property at a location.
- Lifts the one project per property limit and also extends the tax credit to bidirectional charging, which allows for electricity to flow to and from the grid or home and the connected electric vehicle.
- Extends the credit to qualified electric charging stations for certain vehicles with two or three wheels.
- Beginning in 2023, the credit will only be available for projects located in certain designated geographies (low income census tracts or non-urban areas).

Inflation Reduction Act: Supply Chain

- **Advanced Energy Project Credit (Amends 26 U.S. Code 48C) – Sec. 13501**
 - Expands the qualifications for and allocation of advanced energy project credits.
 - Eligibility requirements similar to the old 48C apply.
 - Eligibility is expanded to include projects to establish, expand, or re-equip facilities for the production, manufacturing, or recycling or advanced grid, energy storage, and fuel cell equipment; equipment for the production of low-carbon fuels, chemicals, and related products; renewable energy and energy efficiency equipment; equipment for the capture, removal, use, or storage of carbon dioxide; and advanced light-, medium-, and heavy-duty vehicles and related components and infrastructure.
 - Within 180 days of this bill's enactment, a program must be implemented by Treasury to grant certification to applications by credit project sponsors.
 - The modification allows the Secretary to allocate an additional \$10 billion in tax credits to qualifying projects
 - \$4 billion must be set aside for projects in census tracts in which a coal mine or coal power plant is closed.
 - Project sponsors will be given two years from the time of their application submission to prove that all requirements of eligibility have since been met and two years after the certification of credits to publicly service the project.

Inflation Reduction Act: Supply Chain

Advanced Technology Vehicle Manufacturing (Sec. 50142)

- Appropriates \$3 billion for the Secretary of Energy to make direct loans for the cost of establishing or expanding U.S. manufacturing facilities that produce advanced technology vehicles or components with low or zero GHG emissions.
- Eliminates the loan program cap of \$25 billion established in the Energy Independence and Security Act of 2007.

• Domestic Manufacturing Conversion Grants (Sec. 50143)

- Appropriates \$2 billion for grants for in electric hybrid, plug-in electric hybrid, plug-in electric drive, hydrogen fuel cell electric vehicles.
- Funding available through September 30, 2031 for domestic production of such vehicles via “reequipping, expanding, or establishing a manufacturing facility in the U.S.”

• Federal Fleet

- United States Postal Service Clean Fleets: Appropriates \$3 billion to the United States Postal Service for the purchasing of zero emission delivery vehicles and the installation of infrastructure necessary to support zero vehicles.

Retail – New EV Tax Credit Provisions

Timeline Overview

Before Signing

Existing, “Written binding contract to purchase”

Signing until Treasury Secretary Guidance

Existing 30D + NA production

CY2023

MSRP, AGI, *Battery Components, Critical Minerals*

CY2024

CY2023 + Exclusions for battery Components (any content) + Dealer Point of Sale

CY2025

CY2024 + Exclusions for critical minerals (any content)

CY2026+

Continue ramp up battery components and critical mineral requirements

References

• Free Trade Agreement Countries (for critical minerals only)

- | | |
|------------------------|-----------------|
| 1. Canada | 11. Honduras |
| 2. Mexico | 12. Guatemala |
| 3. South Korea | 13. Nicaragua |
| 4. Australia | 14. El Salvador |
| 5. Panama | 15. Morocco |
| 6. Colombia | 16. Bahrain |
| 7. Peru | 17. Chile |
| 8. Costa Rica | 18. Singapore |
| 9. Oman | 19. Jordan |
| 10. Dominican Republic | 20. Israel |

Critical Minerals (highly purified)

Aluminum, Antimony, Barite, Beryllium, Cerium, Cesium, Chromium, Cobalt, Dysprosium, Europium, Fluorspar, Gadolinium, Germanium, Graphite, Indium, Lithium, Manganese, Neodymium, Nickel, Niobium, Tellurium, Tin, Tungsten, Vanadium, Yttrium, plus others purified to 99%

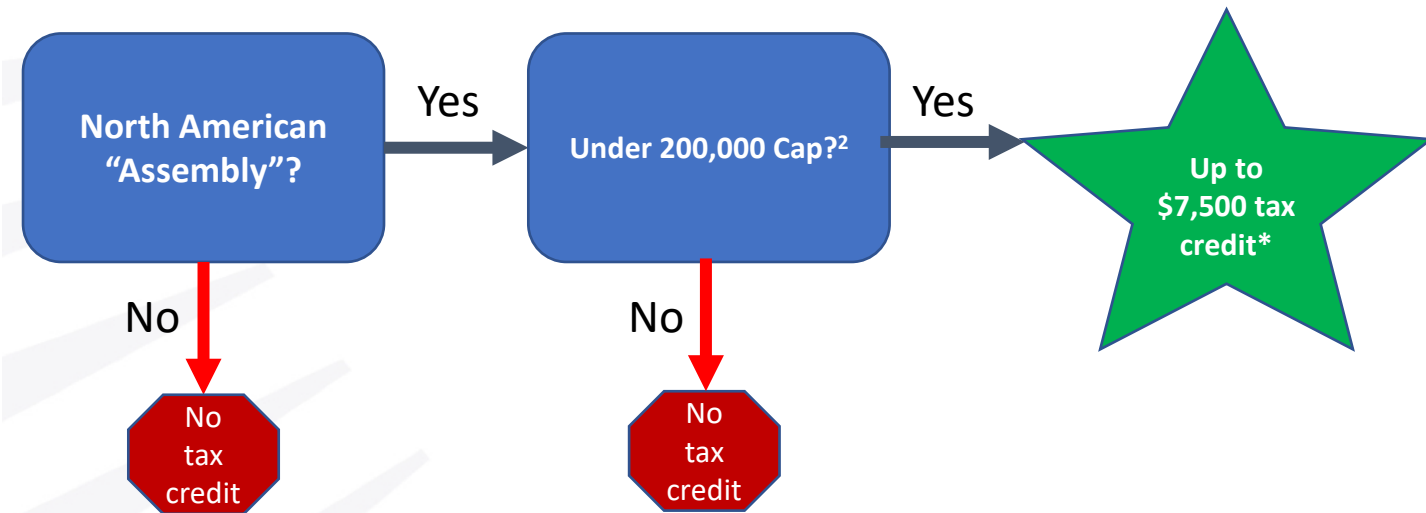
(See Sec 45X(c)(6), pp 438)

• Foreign Entities of Concern (for Excluded Entities 30D(d)(7))

1. China
2. Russia
3. Iran
4. North Korea

Foreign Entity of Concern Definition: Section 40207(a)(5) of the [Infrastructure Investment and Jobs Act](#), “owned by, controlled by, or subject to the jurisdiction or direction of a government of a foreign country that is a “covered nation” (defined in [10 U.S.C. 2533c\(d\)\(2\)](#))”

Retail – New EV Tax Credit (30D) Bill Signing to Release of Treasury Guidance



Other Effective Dates:

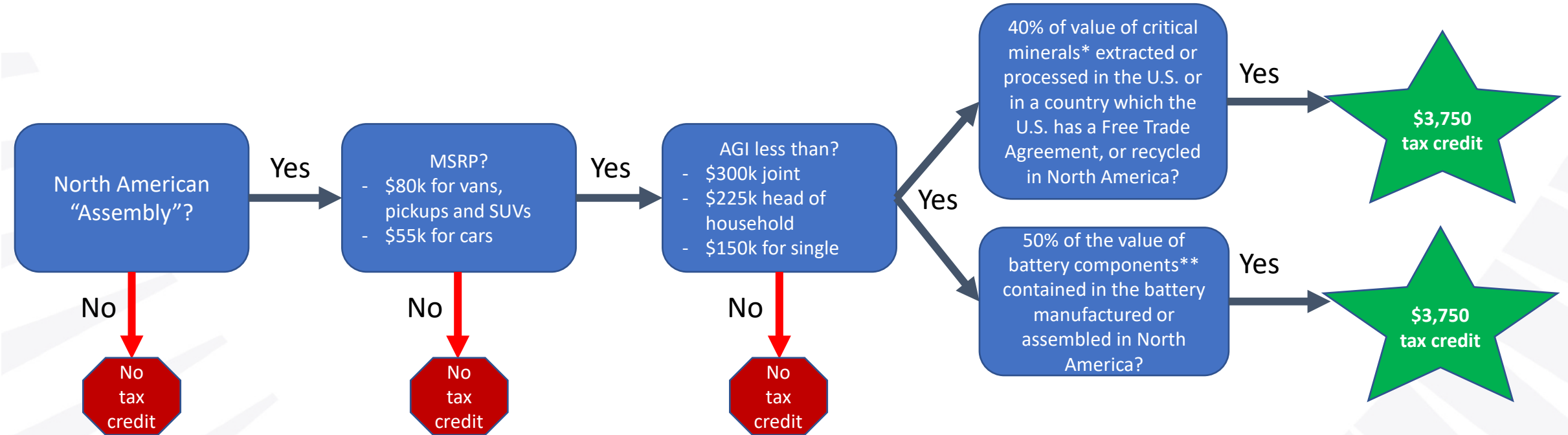
- AGI, MSRP, Lifting of 200K cap (Jan 1, 2023)
- 7 kWh adjustment vs 4 kWh (Jan 1, 2023)
- VIN reporting obligations (Jan 1, 2023)
- Dealer Transfer Authority (Jan 1, 2024)

Note, each of the above not conditioned on Treasury issues of Draft Guidance

Notes:

1. The above is Auto Innovators staff interpretation of legislative language and pending Department of Treasury draft guidance to be issued no later than December 31, 2022
2. Existing 30D provisions still apply to the 200,000-vehicle cap, including the phase down of credit the 2nd Calendar quarter after reaching the threshold. No other changes in IRA apply to sales post enactment – prior to Treasury Secretary Guidance on critical minerals/battery content.
3. Aggregate battery capacity must be greater than 4 kWh

Retail – New EV Tax Credit (30D) 2023CY w/ Treasury Guidance



*Critical Minerals:

- Before CY2024 – 40%
- 2024 – 50%
- 2025 – 60%
- 2026 – 70%
- After 2026 – 80%

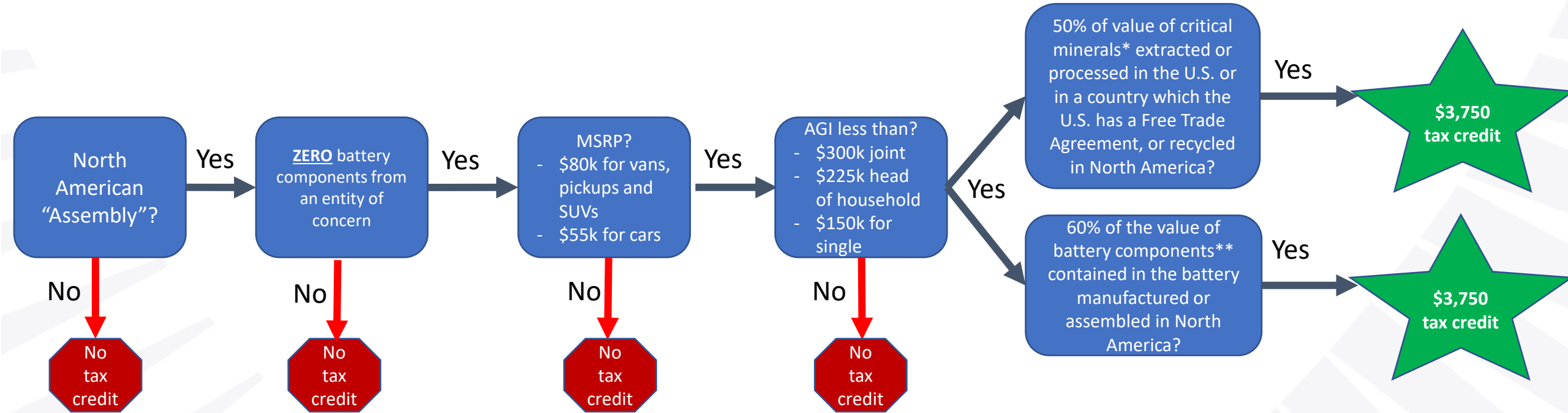
**Battery Components:

- Before CY2024 – 50%
- 2024-2025 – 60%
- 2026 – 70%
- 2027 – 80%
- 2028 – 90%
- After Dec. 31, 2028 – 100%

Notes:

1. The above is Auto Innovators staff interpretation of legislative language and issuance of Treasury draft guidance to no later than December 31, 2022
2. MSRP and AGI are not indexed to inflation. AGI is calculated for two tax periods (purchase year + prior tax year)
3. Critical Minerals: Calculated as the value of the critical minerals contained in such a battery as certified by OEM
4. Battery Components: Calculated as the value of components contained in such a battery as certified by OEM
5. Excluded entities:
 - Starting January 1, 2024, no components contained in a battery of such vehicle can be manufactured or assembled by an entity of concern.
 - Starting January 1, 2025, no applicable critical minerals contained in a battery can be extracted, processed, or recycled by a foreign entity of concern
6. Aggregate battery capacity must be greater than 7 kWh
7. Transfer of Credit not available to auto dealer until January 2024

Retail – New EV Tax Credit (30D) 2024CY



*Critical Minerals:

- Before CY2024 – 40%
- **2024 – 50%**
- 2025 – 60%
- 2026 – 70%
- After 2026 – 80%

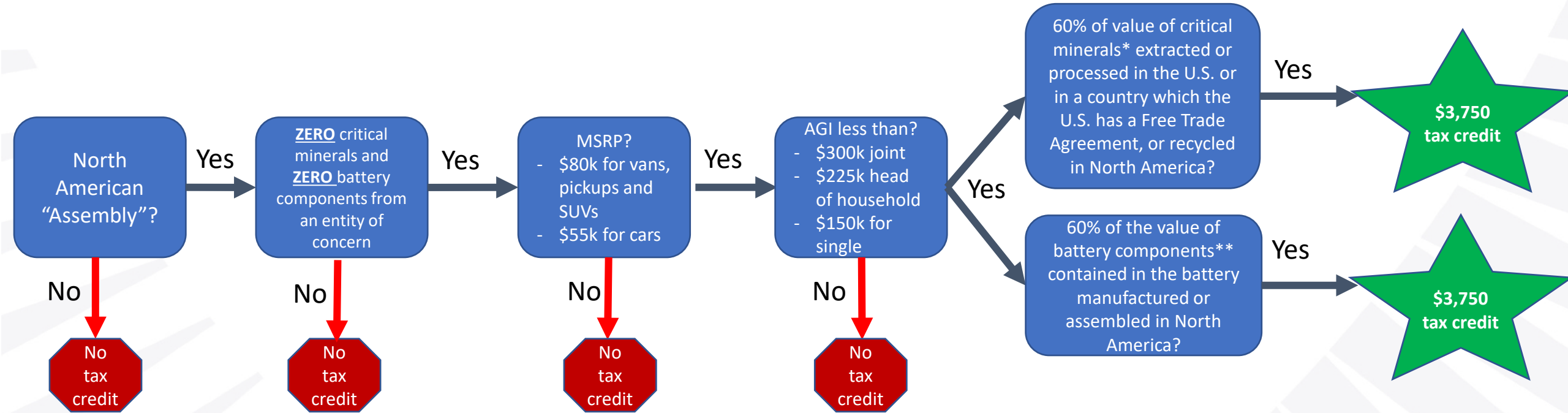
**Battery Components:

- Before CY2024 – 50%
- **2024-2025 – 60%**
- 2026 – 70%
- 2027 – 80%
- 2028 – 90%
- After Dec. 31, 2028 – 100%

Notes:

1. All of the above is Auto Innovators staff interpretation of legislative language and pending Department of Treasury draft guidance to be issued no later than December 31, 2022
2. MSRP and AGI are not indexed to inflation. AGI is calculated for two tax periods (purchase year + prior tax year)
3. Critical Minerals: Calculated as the value of the critical minerals contained in such a battery as certified by OEM
4. Battery components: Calculated as the value of components contained in such a battery as certified by OEM
5. Excluded entities:
 - Starting January 1, 2024, no components contained in a battery of such vehicle can be manufactured or assembled by an entity of concern. **This makes a vehicle placed in service after 12/31/2023 ineligible**
 - Starting January 1, 2025, no applicable critical minerals contained in a battery can be extracted, processed, or recycled by a foreign entity of concern
6. Aggregate battery capacity must be greater than 7 kWh
7. Transfer of Credit to auto dealer available starting January 2024

Retail – New EV Tax Credit (30D) 2025CY



***Critical Minerals:**

- Before CY2024 – 40%
- 2024 – 50%
- **2025 – 60%**
- 2026 – 70%
- After 2026 – 80%

****Battery Components:**

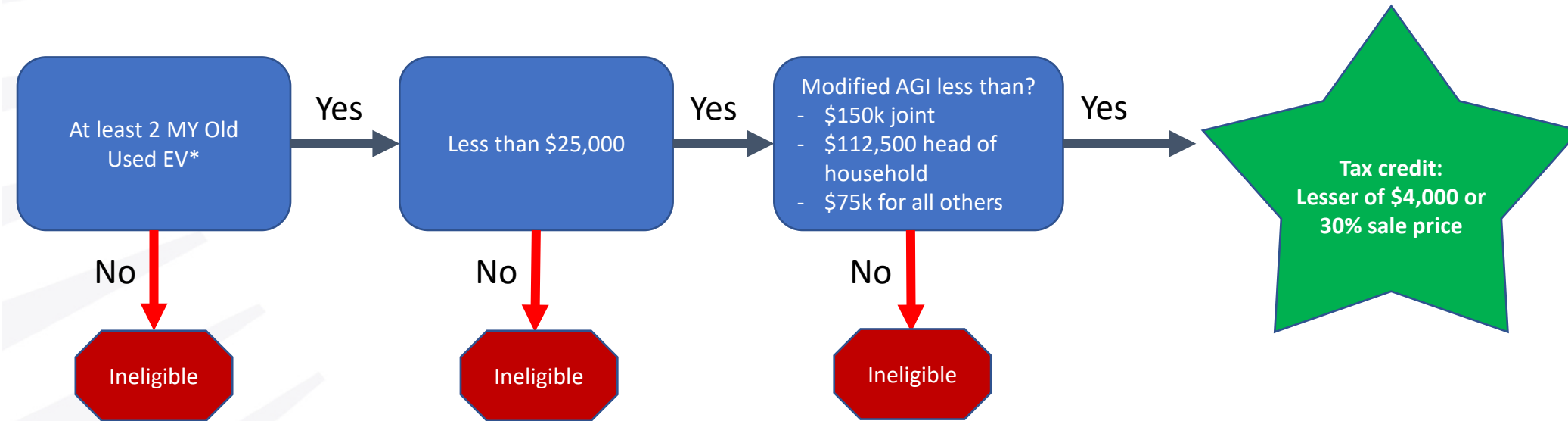
- Before CY2024 – 50%
- **2024-2025 – 60%**
- 2026 – 70%
- 2027 – 80%
- 2028 – 90%
- After Dec. 31, 2028 – 100%

Notes:

1. All of the above is Auto Innovators staff interpretation of legislative language and pending Department of Treasury draft guidance to be issued by the end of December 2022
2. MSRP and AGI are not indexed to inflation
3. Critical minerals are calculated as the critical minerals contained in such a battery as certified by the manufacturer
4. Battery components are calculated as the value of components contained in such a battery as certified by the manufacturer
5. Excluded entities (China, Russia, Iran, North Korea):
 - Starting Jan. 1, 2024, no components contained in a battery of such vehicle can be manufactured or assembled by an entity of concern. **This makes a vehicle placed in service after 12/31/2023 ineligible**
 - Starting Jan. 1, 2025, no applicable critical minerals contained in a battery can be extracted, processed, or recycled by a foreign entity of concern. **Vehicle placed in service after 12/31/2024 is ineligible. See**
6. Aggregate battery capacity must be greater than 7 kWh

Retail – Used EV Tax Credit Provisions

Retail – Used EV Tax Credit (25E) Beginning 2023CY

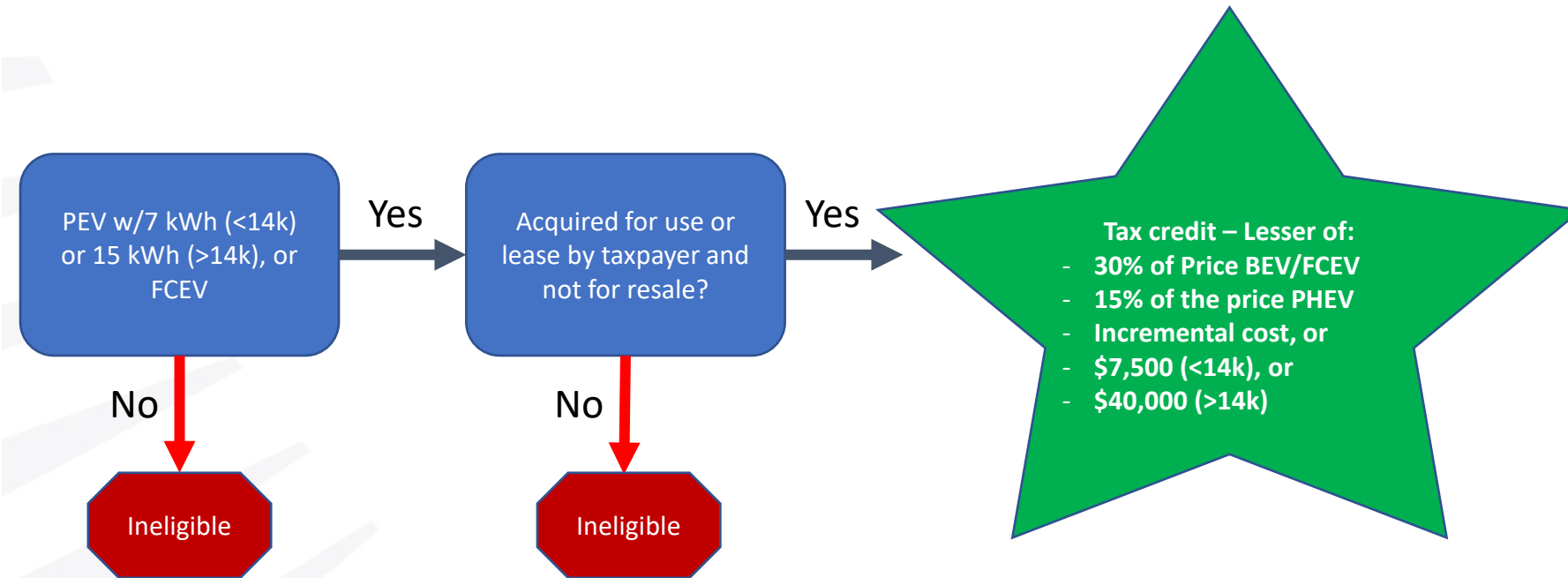


Notes:

1. The above is Auto Innovators staff interpretation of legislative language with qualifying previously owned clean vehicles being at least MY21 in age
2. MSRP and AGI are not indexed to inflation. AGI is calculated for two tax periods (purchase year + prior tax year)
3. Aggregate battery capacity must be greater than 7 kWh
4. Previous owner of the particular EV is ineligible
5. No North American Assembly requirement
6. Taxpayer cannot have claimed a previous 25E tax credit within three years
7. Used EV purchase must occur through a dealer with VIN reporting by the taxpayer
8. Transfer of the credit can occur to a dealer (similar to 30D(g))

Commercial –EV Tax Credit Provisions

Commercial – EV Tax Credit (45W) Beginning 2023CY



Notes:

1. All of the above is Auto Innovators staff interpretation of legislative language and stipulation that qualified vehicles is defined as being made by “a qualified manufacturer” (30D(d)(1)(c), is treated as a motor vehicle under Title II of the Clean Air Act, has a battery capacity of at least 7 kWh, or is a fuel cell vehicle under 30B(b)(3) for depreciation purposes
2. No North American Assembly requirement
3. “Incremental cost” is determined by Treasury Secretary based on ICE of comparable size and use.
4. Treasure Secretary shall issue regulations or guidance for this provision.
5. Credit is effective to vehicles acquired after December 31, 2022 and expires December 31, 2032

Key Treasury Guidance Areas

Treasury Guidance Needed

Critical Minerals

- Draft Guidance Not later than Dec. 31, 2022
- What is the “percentage of the value of the applicable critical minerals” that need to be certified by the qualified manufacturer?

Battery Components

- Draft Guidance Not later than Dec. 31, 2022
- What is the “percentage of the value of the of the components contained in such battery” that need to be certified by the qualified manufacturer?

*Excluded entities: establishes a threshold for “any applicable critical minerals or battery components” starting in January 2024 and 2025

Treasury Guidance Needed

Transition Rule – written binding contract, reservations, [Treasury Guidance issued 8/16]

MSRP – No credit is allowed for a vehicle with an MSRP in excess of the limitation: \$55K car/any other vehicle; or \$80K for vans, trucks, or SUVs

- Regulations and guidance expected concerning vehicle classification using criteria similar to EPA and DOE to determine size and class of vehicles.
- Potential for the Association to advocate for defining base MSRP?

Commercial Credit (45W) – comparable ICE vehicle

VIN Reporting: Sales reporting to Secretary of Treasury

Treasury Guidance Needed

- North American Final Assembly

“(5) FINAL ASSEMBLY.—For purposes of paragraph (1)(G), the term ‘final assembly’ means the process by which a manufacturer produces a new clean vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer or importer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.”.