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Incentives Rewired: How H.R. 1 Reshapes Clean Energy Initiatives

Background

The Inflation Reduction Act, enacted in August 2022, allocated approximately $370 billion in federal incentives to catalyze renewable energy and sustainability initiatives.[1] These incentives—ranging across solar, wind, battery storage, geothermal, hydro, and thermal projects—were primarily codified through U.S. Internal Revenue Code (IRC) and generally extended through 2032. Most of these incentives leverage a direct-pay mechanism, permitting tax-exempt entities and nonprofits to convert credits into tax refund checks from the IRS upon project completion.

Passage of H.R. 1 - Key Statutory Changes

On July 4, 2025, President Trump signed the One Big Beautiful Bill Act, also known as House Resolution 1, into law.[2] This statute amended numerous IRA provisions, mandating revised expiration dates, tightening "begin construction" definitions, and introducing new compliance requirements.

- **Early Terminations:** Several IRA credits now expire years before their original sunset dates, requiring accelerated project timelines, resulting in the need to update fiscal-impact statements.
- **Stricter Start-of-Construction Definitions:** The commercial operation date (COD)—when a project is fully operational and on the balance sheet—supersedes prior work-in-progress milestones for claiming credits.
- **Technology-Specific Impacts:** Wind and solar developments experienced the most significant restrictions and changes, whereas certain technologies (e.g., battery storage) gained marginal timing flexibility.
- **Domestic Content Restrictions:** While meeting domestic content is a recurring requirement for enhanced incentives, along with Fair Wage and Apprenticeship requirements, projects must also exclude components produced by Foreign Entities of Concern (FEOC). While formal guidance is still pending, FEOC refers to China, Iran, Russia, or North Korea. This change reinforces supply-chain due-diligence and procurement compliance.

Takeaway for State and Local Governments: Despite these amendments, state and local governments retain opportunities to secure IRA incentives by proactively aligning project schedules.

Renewable Energy Incentives

Together, changes to IRC §45Y and §48E calibrate incentives around electricity production and energy property equipment costs, enabling energy projects to be more cost competitive and scale quickly.

- **Section 45Y - Clean Energy Production Tax Credit (PTC):** Provides an annual, inflation-adjusted credit for ten years based on metered electricity output from greenhouse-gas-neutral facilities.

[1] Inflation Reduction Act of 2022, H.R. 5376, 117th Congress (2022)
[2] One Big Beautiful Bill Act, H.R. 1, 119th Congress (2025)

- **Section 48E - Clean Energy Investment Tax Credit (ITC):** Delivers one-time, percentage-based credit at COD, with rates influenced by project characteristics and bonus adders (e.g., domestic content, energy communities).

Implications for Wind and Solar

- Projects in advanced planning or with interconnection agreements may likely meet COD thresholds, December 31, 2027, to claim full credits.
- New projects must be initiated by July 4, 2026*, resulting in a compressed build window, which presents varying sets of challenges particularly for large-scale energy projects.

***Renewable Energy Incentives Under Continuity Safe Harbor[3]**

Solar and wind projects must either begin construction by July 4, 2026, or be placed in service by December 31, 2027. If the solar or wind project meets these dates, it will likely qualify for the PTC or ITC.

Implications for Other Technologies

- Battery storage, geothermal, and thermal storage maintain original timelines, with construction commencing through 2032.

Energy Efficient Commercial Buildings

IRC §179D provides a tradable tax certificate—rather than direct pay—to reward energy-efficient design or retrofit performance in commercial buildings.

- Projects must begin by mid-2026; agencies typically have four years post-start to complete construction and certify efficiency gains.
- Certificates transfer to a tax-paying counterparty (e.g., architect, design-builder), reducing project costs for tax-exempt owners through negotiated purchase agreements.

Takeaway for State and Local Governments: Securing counterparty commitments early in the design process is key for leveraging this incentive.

Electric Vehicles & Charging Infrastructure

IRC §30C - EV Charging Infrastructure

The Section 30C credit, Alternative Fuel Vehicle Refueling Property Credit, historically available only for charging stations in rural census tracts, now expires June 30, 2026. Public agencies evaluating grant-eligible charging deployments must:

- Prioritize stations with in-hand permits and interconnection agreements to meet operational deadlines.
- Synchronize capital budgets and procurement cycles with the June 2026 sunset date.

Takeaway for State and Local Governments: Projects under construction in eligible rural tracts will qualify, but new projects face a tight timeline for completion by mid-2026.

[3] IRS, *Beginning of Construction Notice*, 2025

IRC §30D & §45W – Clean Vehicle Credits

The Electric vehicle (EV) purchase incentives under Section 30D and commercial clean vehicle credits under Section 45W terminate on September 30, 2025. EVs not under contract by the end of Q3 2025 will not qualify for federal credits, affecting procurement strategies for municipal fleets and transit agencies.

> *Takeaway for State and Local Governments:* Unless vehicles are under a written, binding contract by September 30, 2025, these incentives will not be applicable.

Conclusion

H.R. 1's amendments require state and local governments to recalibrate energy efficiency and clean vehicle program plans created after IRA. There are a few key actions public agencies can take when reviewing their plans:

- Integrate revised COD and project-start deadlines into capital improvement plans and budget forecasts.
- Strengthen supply-chain protocols and verify updated domestic content compliance early in procurement processes.
- Accelerate permitting, interconnection, and design milestones—particularly for wind, solar, and EV charging projects—to align with compressed timelines.
- Leverage public-private partnerships or alternative funding mechanisms for Section 179D projects to optimize budgetary offsets.

Proactive fiscal planning, cross-departmental coordination, and ongoing monitoring of regulatory guidance will be essential for public entities to steward federal incentives and advance local energy projects.

Want to learn how PFM can assist you?

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