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## Summary of Inflation Reduction Act and other federal tax incentives

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[Learn more: info@chomp.energy](mailto:info@chomp.energy)

Chomp food waste anaerobic digester system (AD System) owners may qualify for a number of significant federal tax benefits, including:

- **IRC § 48 Investment Tax Credit** – You may qualify for the Investment Tax Credit (ITC) equal to 30% (with an additional 10% bonus if in an energy community – see link below) of the cost of your AD System in the year the system is placed in service. The ITC is a credit against federal income tax liability. If you do not have sufficient federal income tax liability to utilize the full amount of the credit, the unused portion can be carried forward to subsequent years. It may also be possible to sell some or all of the ITC to an unrelated person for cash or, in the case of a tax-exempt entity, receive a cash payment.  
<https://www.irs.gov/newsroom/irs-issues-guidance-on-eligibility-requirement-for-energy-communities-for-the-bonus-credit-program-under-the-inflation-reduction-act>
- **IRC § 45Z Clean Fuel Production Tax Credit** – If you produce transportation fuel with your AD System and the fuel meets certain emissions rate standards and other requirements, you may qualify for a federal income tax credit equal to up to \$1.00 per gallon (or equivalent) of fuel. To qualify for this credit, among other requirements, you must sell the fuel to an unrelated third party. This credit applies only to transportation fuel produced during the years 2025 through 2027. The amount of the credit is adjusted for inflation annually. The clean fuel production tax credit is a credit against federal income tax liability. Like the ITC, it may be possible to sell some or all of the clean fuel production tax credit to an unrelated person for cash or, in the case of a tax-exempt entity, receive a cash payment.

- **IRC § 30C Alternative Fuel Vehicle Refueling Property Credit** – If you produce vehicle fuel, you may qualify for the Alternative Fuel Vehicle Refueling Property Credit (RPC) equal to 6% (or 30%, if meet prevailing wage and apprenticeship requirements) of the cost of the “qualified alternative fuel vehicle refueling property” placed in service. Tax-exempt organizations may be eligible for direct pay. The ITC may be able to be stacked with this incentive. The property must be located in a low-income community to qualify.
- **IRC § 45 Electricity Production Tax Credit** – If your AD System generates electricity that you sell to an unrelated buyer, you may qualify for the Production Tax Credit (PTC) equal to up to 1.25 cents per kilowatt hour (adjusted each year for inflation) of electricity produced and sold each year during the 10-year period beginning in the year that your system is placed in service. The PTC is a credit against federal income tax liability. Like the ITC and the Clean Fuel Production Tax Credit, it may be possible to sell some or all of the PTC to an unrelated person for cash or, in the case of a tax-exempt entity, receive a cash payment.
- **Accelerated Depreciation Deductions** – Your AD System may qualify for accelerated and/or bonus depreciation deductions. These deductions may be used to offset income from your business, which may generate significant federal income tax savings. For example, an AD System that is placed in service in 2023 may qualify for 80% bonus depreciation in addition to normal MACRS depreciation for federal income tax purposes. Future bonus depreciation amounts are currently set to ramp down to zero by 2027.

Example: For illustration purposes, if a customer purchases an AD System for \$1.0M in 2023, and places it in service during the same year, the customer may be eligible for a 30% ITC as well as 80% bonus depreciation and MACRS depreciation with respect to the system.

Capital cost	\$1,000,000	Capital cost of qualifying biogas property
ITC value	\$300,000	Assuming the full \$1.0M cost of the AD System is eligible, the ITC would be \$300,000 ( $\$1.0\text{M} \times 30\%$ ). The customer's 2023 federal income tax liability would be reduced, but not below zero, by this amount. Any unused ITC can be carried forward to subsequent tax years, or sold to an unrelated person.
Tax basis for depreciation	\$850,000	Specific to the ITC, the tax basis of the AD System would be decreased by half of the ITC amount, to \$850,000 ( $\$1.0\text{M cost} - (\$300,000 \text{ ITC} \times 50\%)$ )
First year bonus depreciation	\$680,000	The AD System may qualify for first-year bonus depreciation equal to 80% of its adjusted tax basis. This would result in a bonus depreciation deduction of \$680,000 ( $\$850,000 \text{ adjusted tax basis} \times 80\%$ ). The customer's 2023 federal taxable income would be reduced, but not below zero, by this amount. If the amount of depreciation exceeds the customer's taxable income, the customer could possibly carry the excess amount over to a future tax year.
Accelerated depreciation	\$170,000	The remaining adjusted tax basis would be depreciable over the applicable useful life using the MACRS depreciation system.

The AD System and its owner may also qualify for certain available state tax incentives and grants, as well as federal grants and other federal incentives not included above. Chomp can work with you to support the assessment of eligibility requirements, grant writing, and proposals.

*This is not tax or legal advice.* Qualification for tax benefits associated with an AD System, and the ability to fully utilize those benefits, is complex and depends on each owner's particular circumstances. The available tax benefits, including the calculation of depreciation deductions, also depend on each owner's particular circumstances, and the example above is provided only as an illustration. Not all identified tax incentives may apply (for example, REITs may not be eligible), and there may be other tax incentives that have not been identified herein. Each owner should consult its tax adviser regarding the availability and amount of, and ability to utilize, these tax benefits.

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