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Maximizing Renewable Energy Financing with Taxable Municipal Bonds and IRA Credits: Frost Brown Todd

The Inflation Reduction Act of 2022 (IRA) incentivizes investment in clean energy projects by offering income tax credits for entities seeking to finance facilities that produce or use certain clean energy resources. Tax-exempt municipal bonds are issued by states, local governments, and other governmental entities to benefit the public, for instance, by funding energy-efficient improvements to existing structures. Such tax-exempt municipal bonds allow the interest income derived therefrom to be exempt from federal and potentially state income taxes. Alternatively, taxable municipal bonds frequently involve projects that do not qualify for tax-exempt status under Section 103 of the Internal Revenue Code,[1] generally offering higher yields but subjecting the interest income to taxes.

By introducing new incentives and enhancing existing tax credits, the IRA expands opportunities for entities involved in renewable energy development, particularly in how they can leverage both taxable and tax-exempt municipal bonds. For stakeholders, including state and local governments, public utilities, developers, and investors, the IRA offers new strategies to lower the costs of clean energy projects through a combination of tax credits and bond financing. In this article, we explore how the IRA impacts municipal bond financing, the types of tax credits available, and the key opportunities and considerations when evaluating the use of taxable and tax-exempt bonds.

IRA Incentives

The IRA brings significant updates to two critical tax credits for renewable energy projects:

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