

IRS Publishes Inflation Adjustment for Production Tax Credits with Slight Bump for Certain Facilities

15 May 2020

The Internal Revenue Service [published](#) the annual inflation adjustment factor used to calculate the value of production tax credits (“PTCs”) generated in 2020 on May 13, 2020. There is a one-cent per kilowatt-hour (“kWh”) increase for certain facilities as described below, but the rate for wind, closed-loop biomass and geothermal facilities remained unchanged from 2019.

The amount of PTCs available to a taxpayer is calculated by multiplying a base rate that is adjusted annually for inflation by each kWh of electricity the taxpayer produces and sells to third parties during the year. The unadjusted base rate is 1.5 cents per kWh for electricity produced from wind, closed-loop biomass and geothermal facilities. The base rate is cut by 50% in the case of power produced by open-loop biomass, landfill gas, trash, hydropower and marine and hydrokinetic facilities (e.g., facilities that generate electricity from waves or ocean currents).

With the inflation adjustment factor for 2020, we now have a full picture of PTC values for the year. The values are 2.5 cents per kWh for wind, closed-loop biomass and geothermal facilities – the same rate as 2019 – and 1.3 cents per kWh for open-loop biomass, landfill gas, trash, hydropower and marine and hydrokinetic facilities. The PTCs for this second group of facilities received a one-cent increase to 1.3 cents per kWh from 1.2 cents per kWh in 2019.

It is important to keep in mind that wind PTCs are subject to a haircut based on the year in which the construction of the facility began. The chart below illustrates the current phase down schedule for wind projects.

Year Construction Begins	PTC Haircut
2016	0%
2017	20%
2018	40%
2019	60%
2020	40%
2021 or later	100%

Thus, if a wind project began construction in 2016, its owner can claim the full 2.5 cents per kWh for electricity it sells in 2020. However, if construction of the wind project began in 2018, that same 2020 rate is reduced by 40% to 1.5 cents per kWh.

Other types of facilities that qualify for PTCs are not subject to the same phase down schedule as wind, but the construction of these facilities must begin by the end of 2020 in order for them to qualify for PTCs.

[Read more insights from Kirkland's Energy & Infrastructure blog.](#)

Author

[Scott W. Cockerham](#)

Partner / [Washington, D.C.](#)

Related Services

Practices

- [Transactional](#)
- [Energy & Infrastructure](#)
- [Tax](#)

This publication is distributed with the understanding that the author, publisher and distributor of this publication and/or any linked publication are not rendering legal, accounting, or other professional advice or opinions on specific facts or matters and, accordingly, assume no liability whatsoever in connection with its use. Pursuant to applicable rules of professional conduct, portions of this publication may constitute Attorney Advertising.

This publication may cite to published materials from third parties that have already been placed on the public record. The citation to such previously published material, including by use of "hyperlinks," is not, in any way, an endorsement or adoption of these third-party statements by Kirkland & Ellis LLP.