Eliminate California's Tax on Clean Energy Credits

Senate Bill 302 would save ratepayers money and foster in-state clean energy development, addressing two of California's most pressing energy challenges.

Key Takeaways

1. **California is one of only five states that taxes** an Inflation Reduction Act benefit that reduces clean energy development costs.
2. SB 302 (Padilla) would eliminate the tax, **aligning California's tax code with the federal code** as other states have done.
3. **The proposal is projected to reduce electricity rates by up to 3% per year by 2040,** according to a new study.

What's Happening:

Under the federal Inflation Reduction Act (IRA), developers of renewable energy projects (solar, wind, geothermal, hydrogen, etc.) earn Clean Energy Tax Credits. The IRA allows developers to sell their credits directly to banks and other institutions instead of applying them to their own taxes — an option many depend on to maximize the value of the credits.

The federal government doesn't tax those credit transfers, but California does. That's because the state hasn't updated, or "conformed," its tax code to match the IRA (specifically sections 6417 and 6418). California's tax adds millions in costs to midsize renewable projects, making them more expensive to develop.

Eliminating California's tax will reduce project costs, which will reduce rates.

A new study from energy consulting firm E3, conducted using CPUC-approved cost models, estimates ratepayers could save as much as 3 % by 2040.

- The change will mean less tax revenue for the state's general fund, but will bring much-needed relief to ratepayers.

Why it makes sense: Most states automatically adopt the federal tax code. California doesn't, but it periodically conforms portions of the code.

- For example, California conformed to the American Recovery and Reinvestment Act in 2009, the Coronavirus Aid, Relief, and Economic Security Act in 2020 and the American Rescue Plan Act in 2021.

Conforming California's code ensures developers aren't excluded from the full benefits of the IRA in California. The change will make the state more attractive for developers building the projects that energy planners are counting on to build a resilient, carbon-free grid — all while reducing costs for ratepayers.

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