

Inflation Reduction Act: Is the U.S. Finally Poised to Tackle Climate Change?

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In a compromise move many months in the making, on August 7, 2022, the Senate passed a spending bill dubbed the Inflation Reduction Act of 2022, which contains provisions aimed at lowering drug prices and health care premiums, reducing inflation, and most notably for our readers, investing approximately \$369 billion in energy security and climate change programs over the next ten years. The Inflation Reduction Act, which is the Fiscal Year 2022 Budget Reconciliation bill, passed on entirely partisan lines in the Senate, with all 50 Democratic senators voting in favor, all 50 Republicans voting against, and Vice President Harris breaking the tie in favor of the Democrats. The bill is currently pending before the House of Representatives, where it is expected to be hotly contested but ultimately pass.

According to Senate Democrats, the Inflation Reduction Act “would put the U.S. on a path to roughly 40% emissions reduction [below 2005 levels] by 2030, and would represent the single biggest climate investment in U.S. history, by far.” There are a wide variety of programs in this bill aimed at achieving these lofty goals, including:

- **Clean Building and Vehicle Incentives**

- Consumer home energy rebate programs and tax credits, to electrify home appliances, for energy efficient retrofits, and make homes more energy efficient.
- Tax credits for purchasing new and used “clean” vehicles.
- Grants to make affordable housing more energy efficient.

- **Clean Energy Investment**

- Tax credits to accelerate manufacturing and build new manufacturing plants for clean energy like electric vehicles, wind turbines, and solar panels.
- Grants and loans to retool or build new vehicle manufacturing plants to manufacture clean vehicles.

- Funding for EPA, DOE and NOAA to facilitate faster siting and permitting of new energy generation and transmission projects.
- Investment in the National Labs to accelerate breakthrough energy research.
- **Reducing Carbon Emissions Throughout the Economy**
 - Tax credits for states and electric utilities to accelerate the transition to clean electricity.
 - Grants and tax credits to reduce emissions from industrial manufacturing processes like chemical, steel and cement plants.
 - Funding for Federal procurement of American-made clean technologies to create a stable market for clean products—including purchasing zero-emission postal vehicles.
- **Environmental Justice**
 - Investment in community led projects in disadvantaged communities, including projects aimed at affordable transportation access.
 - Grants to support the purchase of zero-emission equipment and technology at ports.
 - Grants for clean heavy-duty trucks, like busses and garbage trucks.
- **Farm and Rural Investment**
 - Funding to support climate-smart agriculture practices and forest conservation.
 - Tax credits and grants to support the domestic production of biofuels.
 - Grants to conserve and restore coastal habitats.
 - Requires sale of 60 million acres to oil and gas industry for offshore wind lease issuance.

Drilling down on some of these many provisions, the clean vehicle consumer tax credit has already sparked controversy due to the requirement that certain manufacturing or components be sourced in North America. The Inflation Reduction Act would maintain the existing \$7,500 consumer tax credit for the purchase of a qualified new clean vehicle. The Act would get rid of the previous limit that a single manufacturer could only offer up to 200,000 clean vehicle tax credits—a limit that many manufacturers were hitting. However, under the new bill, that tax credit is reduced or eliminated for electric vehicles if the vehicle is not assembled in North America or if the majority of battery components are sourced outside of North America and if a certain percentage of the critical minerals utilized in battery components are not extracted or processed in a Free Trade Agreement country or recycled in North America. Manufacturers have indicated these battery sourcing

requirements are currently difficult to meet, and may result in many electric vehicles being ineligible for this tax credit in the near term.

Another controversial point in the Act is the handling of oil and gas rights vis-à-vis wind farm projects. The Act would allow the sale of tens of millions of acres of public waters to the oil and gas industry as part of an overall plan to require offshore oil and gas projects to allow installation of wind turbines. A group of 350 climate groups, including Senator Bernie Sanders, criticized this and other provisions they saw as favorable to the oil and gas industry in the Act. Despite his criticism of certain aspects of the Inflation Reduction Act, Senator Sanders ultimately voted for the bill.

The House is expect to vote on the Inflation Reduction Act very soon and if it is passed by the House, President Biden will sign it into law. We will continue to track the Act's progress and its impact on the regulated community. You can follow the Corporate Environmental Lawyer Blog for all of the latest developments.

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