

Why Congress's new budget should eliminate all IRA "tax credits"

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All the IRA "tax credits" are subsidies for inferior, often totally unprofitable forms of energy.

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Congress's new budget should eliminate all IRA "tax credits" because:

- 1) They are subsidies
- 2) They promote inferior energy
- 3) They raise energy costs
- 4) They make energy unreliable
- 5) They increase our debt
- 6) They make our economy less productive
- 7) They don't lower CO2 emissions

Truth 1: IRA energy tax credits are really just subsidies

- Real tax credits let productive industries keep/reinvest more of their profits.

Most IRA "tax credits" are transferable tax reduction certificates that unprofitable industries trade for cash. I.e., subsidies.¹

- A tax credit lets productive industries pay less tax on profits, which enables them to reinvest in additional productivity.

But most IRA "tax credits" support activities that are unprofitable on a free market—e.g., solar, wind, hydrogen—and therefore have no taxes to reduce with credits.

- How can unprofitable activities be set to get a trillion dollars in IRA "tax credits"?

Because **they are aren't really tax credits but *transferable tax reduction certificates*** that can be easily sold for cash to profitable companies (and sometimes the government itself).

- Giving a trillion dollars in transferable tax reduction certificates to unprofitable activities that pay no taxes is no different than giving transferable tax reduction certificates to individuals who pay no taxes.

It's a trillion dollar subsidy, not a tax credit.

Truth 2: Every IRA subsidy promotes inferior energy

- Every subsidy has lobbyists who say it's somehow improving American energy.

But the fact is, they are demanding subsidies because the energy they are pushing is inferior and couldn't survive or thrive on a free market.

- **The IRA's "45Y" and "48E" subsidies will give \$241-901 billion to companies for "clean electricity," mostly intermittent solar and wind**—which would be used far less in a free market because they are so unreliable. E.g., CA has chronic reliability problems from depending on solar.²
- **The IRA's "45X" Advanced Manufacturing Production subsidies will give companies \$132-193 billion to inefficiently manufacture batteries**, as well as the solar panels and wind turbines that are creating huge reliability problems on our grid and increasing the cost of electricity.³
- **The IRA's "30D," "25E," "45W," and "30C" subsidies will give \$117-393 billion to companies for EVs**—whose mix of cost and (in)convenience most consumers won't pay market prices for, and therefore need huge subsidies as well as mandates to buy.⁴
- **The IRA's "45Q" subsidies will give companies \$34-210 billion to capture CO2 and pump it underground**—a process companies would use very little on a free market since it's so costly. E.g., carbon capture for a coal plant makes the coal more than 5 times more expensive!⁵
- **The IRA's "45V" subsidies give companies \$33-100 billion for hydrogen fuel**—which would exist very little in a free market because it's so expensive to make. Hydrogen costs 2-3 times what gasoline does for the same distance traveled, even at the current low level of demand! And favored "green" hydrogen is even more!⁶
- **The IRA's "45Z" subsidies will give companies \$43 billion for various "clean fuel" projects, mostly biofuels**—which would be used far less in a free market since they are expensive to produce and compete with food for cropland.⁷
- **The IRA's "25C", "25D" and "45L" subsidies will pay (mostly wealthy) property owners \$28-276 billion to use government-favored "energy efficiency" technologies** like solar panels and heat pumps that they wouldn't otherwise use or be willing to pay for.⁸

Truth 3: All the IRA subsidies raise the real cost of energy

- **By forcing taxpayers to prop up inefficient energy production, all the IRA subsidies make energy more expensive.** But we don't always see the full cost because we're paying much of it in taxes and inflation.
- **All the IRA subsidies involve taking money from taxpayers—including the most efficient energy producers—and giving it to companies to produce inefficient, often totally unprofitable, forms of energy.**

The result is always less efficient production and therefore higher costs.

- When assessing the costs of subsidies, we must look at the total cost of the energy they provide. For example if we're subsidizing hydrogen fuel we must add the sticker price we pay to the taxes we pay.

In all such cases, **subsidies make energy's total cost—its real cost—higher.**

Truth 4: IRA subsidies make energy less reliable

The IRA's "clean electricity" subsidies pay utilities to invest much more money in unreliable solar and wind than they otherwise would, and thus much less in reliable coal and gas.

This has brought about a reliability crisis.

Truth 5: IRA energy subsidies will increase the deficit and debt

Credible estimates show the IRA costing the budget \$1-2 trillion over the next decade and trillions more after that.

These trillions can be cut and it won't cost the American people but hugely benefit them.⁹

Truth 6: IRA energy subsidies will make our economy less productive

- **The IRA subsidies incentivize investors to put capital into uncompetitive businesses—in this case \$3 trillion by 2032 and \$11 trillion by 2050.** That's a disaster for our economy, including real job opportunities.¹⁰

- *Myth: We owe it to subsidized companies to continue subsidies because their investments depend on them.*

Truth: **Companies have no legal or moral entitlement to perpetual subsidies,** which they chose to rely on instead of creating truly productive businesses.

- **Legally, people and companies do not have a vested right in a future tax benefit, even one that they relied upon in the past.** The Supreme Court has long held that taxpayers do not have a vested right in any given mode of taxation.¹¹
 - **Ending all IRA subsidies is not only legal—it's just.** Those who built subsidy-dependent businesses knowingly took on the kind of risk that we do not want to reward: gambling with temporary, unearned government handouts, instead of investing in real value creation.
- *Myth: Removing IRA subsidies would create harmful instability for subsidized projects.*

Truth: **We want instability for subsidized projects, so that companies invest in real value creation and avoid subsidy-seeking.** Removing IRA subsidies will teach a vital lesson.

- *Myth: IRA subsidies benefit many states and districts, especially Republican ones, by subsidizing businesses and jobs.*

Truth: **IRA is creating a small number of unsustainable jobs—while harming every American with inflation, less economic opportunity, and a declining grid.**

- Based on the data cited by DOE, in 2023, **the IRA resulted in the creation of up to 142,000 jobs.** For comparison, in 2023, according to the Bureau of Labor Statistics, the US economy as a whole created 2.6 million jobs.¹²
- Most or all of the IRA's meager 142,000 jobs created in 2023 would have likely been created in other, more productive businesses.

In any case, **IRA-subsidized jobs cost us a fortune.** For example, we're paying \$2-7 million each for EV jobs that pay less than the national average!¹³

- *Myth: IRA subsidies are crucial for us to be competitive with China*

Truth: **IRA subsidies disproportionately benefit China.** The way to be competitive is to increase industrial freedom and focus on real energy, not expensive of unreliable energy that needs to be subsidized.

- IRA significantly and disproportionately benefits Chinese companies by (1) increasing demand for Chinese companies that dominate the solar/wind supply chains, and (2) directly subsidizing Chinese-owned solar/wind projects operating in the US.
- **IRA subsidies indirectly benefit Chinese manufacturers by subsidizing the “green” industries that rely on them.** E.g., China controls 80–90% of global solar panel manufacturing, over 70% of lithium-ion battery production, and key critical mineral refining.
- In some cases, **IRA subsidies directly pay significant taxpayer dollars to Chinese companies that are operating facilities in the US.**¹⁴
- Chinese companies already control about 80% of the global solar/wind energy market. If these companies decide to operate facilities in the US and dominate the US market to the same extent, they could collect around \$125 billion in US taxpayer money through the IRA subsidies.¹⁵
- **Chinese domination of the US solar/wind markets has already begun.** Chinese-backed companies are expected to deploy at least 20 GW of solar module production capacity in the US in 2025, accounting for nearly half of the total forecasted US solar demand.¹⁶

Truth 7: The IRA subsidies won't even reduce CO2 emissions

- **The IRA subsidies were all justified as dramatically in lower CO2 emissions.**

But subsidized energy cannot do this, because emissions are a global issue and most people will not choose more expensive or less reliable energy in exchange for lower emissions.

- **The only moral and practical way to lower global CO2 emissions is to have truly cost-competitive alternatives** that nations like China and India will voluntarily use because they're cheaper.

Punishing Americans with subsidized, lower-CO2 energy can't significantly lower emissions.

Bottom line: All the IRA “tax credits” are subsidies for inferior, often totally unprofitable forms of energy.

All of them increase the cost of energy, increase our deficit and debt, and harm our economy by incentivizing bad investments.

All the IRA subsidies should go.