

Clean Energy Tax Credits (Inflation Reduction Act – Elective Pay)

Agency: U.S. Internal Revenue Service (IRS)

Category: Environmental Tax Credits

Eligible Applicants: Per the IRS, eligible applicants include tax-exempt organizations, States, and political subdivisions such as local governments, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, rural electric co-operatives, U.S. territories and their political subdivisions, and agencies and instrumentalities of state, local, tribal, and U.S. territorial governments.

Total IRA Funding: N/A. Total elective pay-eligible tax credits are uncapped.

FY24 Grant Funding: N/A

Match Requirements: N/A. Elective pay reimburses eligible applicants for a portion of their investment in clean energy. The credit amount varies by tax provision.

Key Dates: Tax-exempt entities and governments must pre-register with the IRS and receive a registration number before filing a tax return.

The deadline to file a tax return is the due date within that taxable year, which is typically 4.5 months after the end of the filing entity's tax year. Pre-registering and filing a tax return are prerequisites for receiving payment.

Overview: The Inflation Reduction Act of 2022 (IRA) provides elective pay (often called "direct pay") provisions for investments in or production of clean energy. Tax-exempt and government entities will be able to receive a payment equal to the full value of tax credits for qualifying clean energy projects, including work to expand EVs/EV charging, and clean energy generation.

Eligible Activities: Tax-exempt and government entities can use elective pay for twelve tax credits provided by the IRA. These tax provisions address energy generation and carbon capture, manufacturing, vehicles, and fuels. Eligible projects include clean energy generation, battery storage, community solar projects, electric vehicle (EV) charging infrastructure, and purchasing clean vehicles for state or municipal fleets. Criteria for receiving funding vary by tax provision.

Opportunities for Climate and Racial Wealth Equity: Additional tax credits, also called bonuses, are available for qualifying energy projects. Several tax credits increase by 10 percent or percentage points if projects are located in energy communities.

Key Funding Criteria: Criteria for receiving funding vary by tax provision.

Additional Information: Additional program information is available on the White House and IRS websites. Information on the tax provisions eligible for elective pay is available via Publication 5817-G.