

# Promoting Clean Vehicles Through Direct Pay: A Resource for Cities

Under the Direct Pay provisions of the Inflation Reduction Act (IRA), cities, nonprofit organizations, and other tax-exempt entities can for the first time leverage two tax benefits for clean vehicles:

- **The Alternative Fuel Vehicle Refueling Property Credit**, which supports electric vehicle (EV) charging infrastructure and other types of alternative fueling;
- **The Credit for Qualified Commercial Clean Vehicles**, which supports clean commercial vehicles like EV buses.

## Alternative Fuel Vehicle Refueling Property Credit

This tax credit incentivizes EV charging stations or alternative refueling stations on qualified properties. Note that this credit can be leveraged in tandem with federal grants, and the generosity of the benefit depends on several factors (more below).

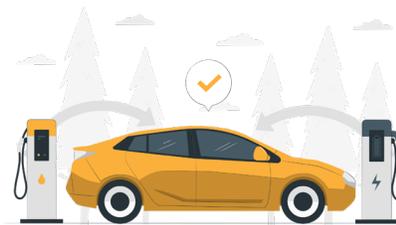
## Credit Amount, Limitations, and Bonuses

- The base tax credit equals 6% of the basis of the property.
- The tax credit increases to 30% if prevailing wage and apprenticeship rules are met.
- The maximum credit is \$100,000 per each single item of property.
- Only projects located in low-income communities or non-urban areas qualify for the benefit; further guidance on specifics is forthcoming.

## Example Projects



City G, located in a low-income census tract, plans to install 350 kW direct current fast chargers (DCFC) curbside on public streets for publicly accessible charging.



City H, located in a non-urban area, was awarded grant funding under the DOT Charging and Fueling Infrastructure Grant Program to install Level 2 and DCFC chargers at various publicly accessible, municipally-owned buildings: City Hall; the public library; the elementary and high schools; and the public park.



City J will install compressed natural gas (CNG) fueling infrastructure at a local airport to support a new fleet of natural gas transit buses and shuttle that provide shuttle services at the airport.

## Federal Grants can be Paired with this Tax Benefit:

Listed below are several federal grant opportunities through the Bipartisan Infrastructure Law and the Inflation Reduction Act that communities can leverage in tandem with the Alternative Fuel Vehicle Refueling Property Credit.<sup>2</sup>

Agency	Program	Overview	Implementation Status
DOT FHWA	<a href="#">Charging and Fueling Infrastructure (CFI) Discretionary Grant Program</a>	The <a href="#">Charging and Fueling Infrastructure Grant Program</a> provides funding to strategically deploy publicly accessible electric vehicle charging infrastructure and other alternative fueling infrastructure.	The fiscal year (FY) 2022 and 2023 Notice of Funding Opportunity (NOFO) opened on March 14, 2023 and closed on June 13, 2023. DOT will likely issue the FY 2024 NOFO in 2024.
DOT FHWA/State DOTs	<a href="#">National Electric Vehicle Infrastructure Formula Program (NEVI)</a>	The BIL establishes the NEVI Program to provide funding to States to strategically deploy electric vehicle (EV) charging infrastructure and to establish an interconnected network to facilitate data collection, access, and reliability.	U.S. State DOTs have begun to issue requests for proposals (RFP) for the NEVI program. In July 2023, Hawaii and Ohio were the first U.S. states to award NEVI <a href="#">charging station contracts</a> .
DOT FHWA	<a href="#">Congestion Mitigation and Air Quality Improvement Formula Program (CMAQ)</a>	The BIL continues the Congestion Mitigation and Air Quality Improvement Program (CMAQ) to provide a flexible funding source to State and local governments for transportation projects and programs to help meet the requirements of the Clean Air Act. The BIL added CMAQ eligibilities, including: the purchase of diesel replacements, or medium-duty or heavy-duty zero emission vehicles and related charging equipment.	Funding allocated to State DOTs on annual basis.

<sup>2</sup> In limited scenarios, the tax incentive value is limited if used in tandem with federal grants.

Agency	Program	Overview	Implementation Status
DOT OST	<a href="#">Rebuilding American Infrastructure with Sustainability and Equity</a>	<p>The RAISE discretionary grant program (formerly known as BUILD and TIGER) provides an opportunity for USDOT to invest in road, rail, transit, and port projects that achieve national objectives.</p> <p>The BIL increased program focus on zero-emission vehicle infrastructure, including <b>EV charging</b>; eligible EV activities include: light-duty vehicle charging; commercial charging; and public transportation charging.</p>	<p>On June 30, 2023, DOT <a href="#">issued</a> 2023 RAISE grant awards.</p>
EPA	<a href="#">Clean Heavy-Duty Vehicle Program</a>	<p>The Inflation Reduction Act invests \$1 billion to replace dirty heavy-duty vehicles with clean, zero-emission vehicles, support zero-emission vehicle infrastructure, and to train and develop workers.</p> <p>Program includes “<b>associated charging and re-fueling infrastructure</b>” as an eligible project cost.</p>	<p>According to its <a href="#">website</a>, EPA anticipates this new funding opportunity may begin later in 2023.</p> <p><a href="#">Sign up for updates on this program from EPA here</a>, or contact <a href="mailto:cleanhdutyvehicles@epa.gov">cleanhdutyvehicles@epa.gov</a>.</p>
EPA	<a href="#">Clean School Bus Program</a>	<p>The program seeks to incentivize and accelerate the replacement of existing school buses with low-emission and Zero Emissions (ZE) school buses. Eligible activities include the replacement of existing internal-combustion engine (ICE) school buses with electric, propane, or compressed natural gas (CNG) school buses, <b>as well as the purchase of electric vehicle supply equipment (EVSE) infrastructure and EVSE installations.</b></p>	<p>EPA issued 2023 <a href="#">Notice of Funding Opportunity (NOFO)</a> on April 24, 2023; applications closed on August 22, 2023.</p>

## Credit for Qualified Commercial Clean Vehicles

This tax credit supports entities like local governments that buy and place in service qualified commercial clean vehicles, including passenger vehicles, buses, ambulances, mobile machinery and other vehicles for use on public streets, roads, and highways.

To qualify, the vehicle must be made by a qualified manufacturer. There are also specific provisions around battery power.<sup>3</sup>

### Credit Amount

The maximum credit is \$7,500 for vehicles weighing less than 14,000 pounds (Class I – III vehicles), and \$40,000 for all other vehicles.

### Example Projects:



In an effort to electrify its fleet, City I will purchase electric recycling and waste trucks; electric public transit buses; and electric snow control/removal vehicles.



City J receives a tax-exempt grant EPA to purchase electric school buses to transition its fleet of school buses to electric buses (EVs).

## Federal Grants can be Paired with this Tax Benefit

Listed below are several federal grant opportunities through the Bipartisan Infrastructure Law and the Inflation Reduction Act that communities can leverage in tandem with the Credit for Qualified Commercial Clean Vehicles.<sup>4,5</sup>

<sup>3</sup> The owner of the vehicle must certify that the vehicle draws significant propulsion from a battery with a capacity of at least 7 kilowatt hours, provided the gross vehicle weight rating (GVWR) is under 14,000 pounds. Alternatively, the vehicle can draw 15 kilowatt hours if the GVWR is over 14,000 pounds. Furthermore, the owner can certify that vehicle is a new fuel cell motor vehicle as defined in Section 30B(b)(3) (e.g. a hydrogen fuel cell vehicle).

<sup>4</sup> In limited scenarios, the tax incentive value is limited if used in tandem with federal grants.

<sup>5</sup> Note that local governments can leverage funding from the American Rescue Plan's State and Local Fiscal Recovery Fund to hire personnel to help them identify and garner the multiple sources of funding available to support clean energy projects.

Agency	Program	Overview	Implementation Status
EPA	<a href="#">Clean School Bus Program</a>	<p>The program seeks to incentivize and accelerate the replacement of existing school buses with low-emission and Zero Emissions (ZE) school buses. Eligible activities include the replacement of existing internal-combustion engine (ICE) school buses with electric, propane, or compressed natural gas (CNG) school buses, as well as the purchase of electric vehicle supply equipment (EVSE) infrastructure and EVSE installations.</p>	<p>EPA issued 2023 <a href="#">Notice of Funding Opportunity (NOFO)</a> on April 24, 2023; applications closed on August 22, 2023.</p>
EPA	<a href="#">Clean Heavy-Duty Vehicle Program</a>	<p>The Inflation IRA invests \$1 billion to replace dirty heavy-duty vehicles with clean, zero-emission vehicles, support zero-emission vehicle infrastructure, and to train and develop workers.</p> <p>EPA will offer grants and/or rebates in funding for clean heavy-duty vehicles between 2023 and 2031.</p>	<p>According to its <a href="#">website</a>, EPA anticipates this new funding opportunity may begin later in 2023.</p> <p><a href="#">Sign up for updates on this program from EPA here</a>, or contact <a href="mailto:cleanhdutyvehicles@epa.gov">cleanhdutyvehicles@epa.gov</a>.</p>
EPA	<a href="#">Diesel Emissions Reduction Act (DERA) Program</a>	<p>The DERA Program funds grants and rebates that protect human health and improve air quality by reducing harmful emissions from diesel engines.</p> <p>The program can be used to replace heavy-duty diesel vehicles and equipment with EVs and chargers.</p>	<p>EPA issued the <a href="#">2022-2023 DERA NOFO</a> on August 4, 2023; applications are due by December 1, 2023.</p>

Agency	Program	Overview	Implementation Status
DOT FTA	<a href="#">Bus and Bus Facilities</a>	<p>The Grants for Buses and Bus Facilities Competitive Program (makes federal resources available to states and direct recipients to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities, including technological changes or innovations to modify low or no emission vehicles or facilities. Funding is provided through formula allocations and competitive grants.</p>	<p>On June 26, 2023, FTA <a href="#">announced</a> Grants for Buses and Bus Facilities <a href="#">project selections</a>.</p> <p>Funds remain available for obligation for three fiscal years (2024 - 2026).</p>
DOT FTA	<a href="#">Low or No Emissions Grants</a>	<p>The Low or No Emission competitive program provides funding to state and local governmental authorities for the purchase or lease of zero-emission and low-emission transit buses as well as acquisition, construction, and leasing of required supporting facilities.</p>	<p>On June 26, 2023, FTA <a href="#">announced</a> billion in FY23 Low- and No-Emission project selections.</p> <p>Funds remain available for obligation for three fiscal years (2024 - 2026).</p>