

# Direct Pay and Tax Credits

## An Opportunity for State and Local Governments to Invest in Clean Energy



There are new tax credit opportunities\* available through Direct Pay for state and local governments to improve climate resilience and promote sustainability. This guide provides an introduction and orientation to Direct Pay and how entities can access tax credits by:

- Describing the Direct Pay tax provisions of recent legislation;
- Providing examples of how the tax credits can help state and local governments recover costs for investments in clean energy; and
- Identifying resources to help interested governments learn more and leverage these credits.

### ***What is Direct Pay and what does it mean for state and local governments?\****

The Inflation Reduction Act's (IRA) new provisions for [Direct Pay](#) (also called **Elective Pay**) make **clean energy tax credits available to tax-exempt entities** including Tribal governments, states, and political subdivisions such as local governments and rural electric cooperatives. Tax-exempt entities can now make clean energy investments and claim the [twelve credits eligible for Direct Pay](#) including the:

- Clean Electricity Investment Tax Credit (ITC) for Energy Property (Internal Revenue Code Sec. 48E),
- Alternative Fuel Vehicle Refueling Property Credit (30C), and
- Clean Electricity Production Tax Credit (45 and 45Y).

Direct pay is a way for [state and local governments](#), and other tax-exempt entities, to **recover costs** of making clean energy investments **after the project is placed in service**.

After “electing” to file an annual tax return and claiming these tax credits, the IRS will issue a refund payment in the full value of the credit, as long as all underlying requirements for the credits are met, including pre-filing registration.

### ***How much can state and local governments save through Direct Pay?\****

The **base tax credit is 30 percent** of the investment if [prevailing wage and apprenticeship](#) bonus credit requirements are met. The amount of the credit can be further increased, **up to 70 percent**, through meeting the requirements of additional bonus credits. **Bonuses are available** for:

- Investments in [low-income communities](#), on Indian land, as part of affordable housing developments, and benefitting low-income households (10 or 20 percent; note that this is an allocated credit that is capped and requires an application);
- Meeting [domestic content](#) requirements (10 percent); and
- Projects, facilities, and technologies planned in [energy communities](#) (10 percent).

The Direct Pay provisions enable entities to **combine grants and loans** with tax credits. Investments funded by tax-free grants and forgivable loans are eligible for the same value of the tax credit as if the investment was financed by entirely taxable funds. See the next page of this guide for an example.

## Example of how Direct Pay and Tax Credits make these investments more achievable

### Innovative Electric Vehicle (EV) Charging Programs:

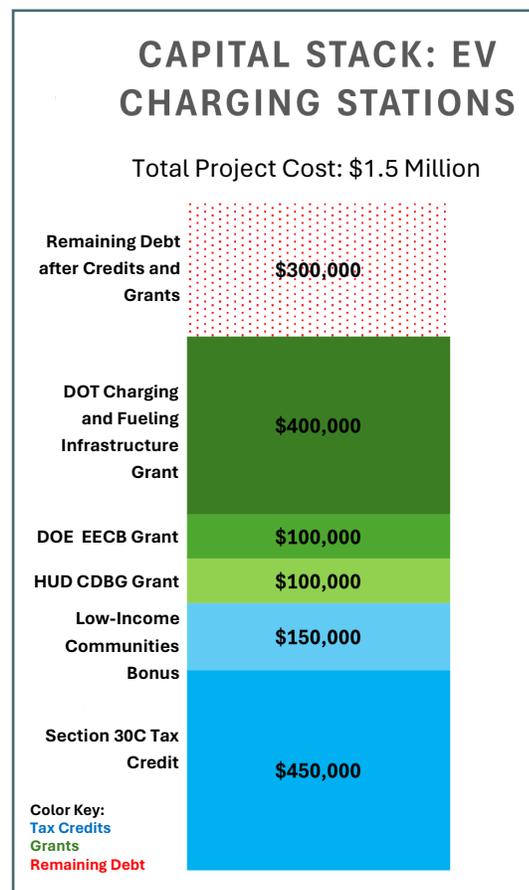
The graph at the right demonstrates an example **\$1.5 million project** for a local government to install a twenty-port fast-charging station for electric vehicles in a municipal parking lot. The project qualifies for grants including:

- \$400,000 through Department of Transportation's [Charging and Fueling Infrastructure Grant](#) Program,
- \$100,000 through Department of Energy's [Energy Efficiency and Conservation Block Grant](#) Program, and
- \$100,000 through [HUD's Community Development Block Grant](#) Program.

If the project qualifies for the Section 30C tax credit, meets prevailing wage and apprenticeship requirements, and its low-income community bonus application is approved, the total credit owed to the entity would be **\$600,000**.

Combined with the grants above, the **total remaining debt** would be **\$300,000**, or 20 percent of total project costs. Fees accrued from charging could be used to further recoup costs.

Direct pay also creates opportunities to invest in solar energy projects. Refer to other guides in this series for detailed examples and applicability to Public Housing Authorities.



### Learn more about Direct Pay and Clean Investment Tax Credits:

- The IRS has a central page with resources available to learn about [credits and deductions under the IRA](#) and [frequently asked questions](#) on Direct (Elective) Pay.
- Find out if your property is eligible for the Alternative Fuel Vehicle Refueling Property Tax Credit (30C) using the [Eligibility Locator Tool](#) developed by the Argonne National Laboratory.
- Visit the Department of Energy (DOE) [Federal Solar Tax Credits](#) page to see examples of how to use the Investment Tax Credits (48 and 48E) and Production Tax Credits (45 and 45Y) for solar energy system installations and to learn more about the domestic content bonus.
- The Department of Labor has more information about the [Prevailing Wage and Apprenticeship \(PWA\) Bonus](#) and the IRS has developed a specific [FAQ](#).
- Visit the Interagency Working Group on Coal and Power Plant Communities and Economic Revitalization [Energy Community Tax Credit Bonus](#) page for definitions of an energy community, FAQs, and maps to learn if your community may qualify for the bonus credit.
- DOE's [Low-Income Communities Bonus Program](#) page has application cycle information, checklists, FAQs, and maps to learn if your community may qualify for the bonus credit.

These resources are just the start!

Look for other information that matches your needs here:

[Build for the Future](#) — A wealth of technical resources on energy efficiency and resilience

[Build for the Future Funding Navigator](#) — A user-friendly searchable database for IRA and BIL grants

