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DIRECT PAY: AN INNOVATIVE NEW OPPORTUNITY FOR TAX-EXEMPT PROJECT FUNDING

*Funding Opportunities for Nonprofits, Municipalities, and
Communities*
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ELECTIVE PAY: A NEW PATHWAY FOR GOVERNMENTS TO GET FUNDS FOR PROJECTS

Previously, tax-exempt entities could not directly claim any climate or clean energy tax credits.

However, elective pay, also known as "**direct pay**," allows tax-exempt entities to receive certain clean energy and climate-related tax credits as **direct cash refunds from the IRS.**

Entities eligible for elective pay include:



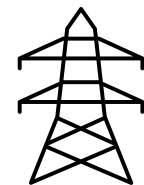
State, local, and tribal governments



Subnational government instrumentalities, including school districts, police, fire authorities, etc.



Any Section 501 tax-exempt entity (501c nonprofits, religious organizations, social clubs)



Public power utilities and rural electric cooperatives

ELECTIVE PAY COVERS 12 NEW AND EXPANDED CLIMATE AND CLEAN ENERGY TAX CREDITS

Section 48
Investment Tax
Credit (ITC)
(through 2024)

Section 48E
Clean Electricity
Investment Credit
(ITC)
(beginning 2025)

Section 45
Production Tax
Credit (PTC)
(through 2024)

Section 45Y
Clean Electricity
Production Tax
Credit (PTC)
(beginning 2025)

Section 45U
Zero-Emission
Nuclear Power
Production Tax
Credit

Section 30C
Alternative Fuel
Vehicle Refueling
Property Credit

Section 45W
Credit for Qualified
Commercial Clean
Vehicles

Section 45Z
Clean Fuel
Production Credit
(beginning 2025)

Section 45V
Clean Hydrogen
Production Tax
Credit

Section 45Q
Credit for Carbon
Oxide Sequestration
(\$45Q)*

Section 45X
Advanced
Manufacturing
Production Credit

Section 48C
Advanced Energy
Project Credit

THESE TAX CREDITS ARE RELEVANT FOR MOST ENTITIES

Example Projects:

- EV charging stations in low-income or non-urban areas



Section 30C
Alternative Fuel Vehicle
Refueling Property
Credit

Section 45/45Y
Production Tax Credit
(PTC)



Example Projects:

- Community solar
- Distributed energy at wastewater treatment plants
- Port electrification

Example Projects:

- Municipal light-duty electric vehicles
- Electric school buses



Section 45W
Credit for Qualified
Commercial Clean
Vehicles

Section 48/48E
Investment Tax Credit
(ITC)



Example Projects:

- Rooftop solar on municipal buildings
- Distributed wind
- Solar + Storage
- Geothermal HVAC

PROCESS FOR CLAIMING DIRECT PAY

To claim and receive a tax credit through elective pay, entities must **pre-register their projects** and **file a tax return with the IRS.**

Tax credits are claimed on projects completed in the **previous fiscal year.**

Returns are due **4.5 months after the end of the fiscal year.**

Pre-filing registration

- Each project must be registered and approved by the IRS and receive a unique ID number

Filing

- Entities fill out all applicable tax forms along with supporting documentation and ID numbers

Tax funds received

- Entities receive the tax refunds as a check or a direct deposit.

WHAT MAKES DIRECT PAY UNIQUE?

Direct pay is retroactive.

Direct pay is “stackable” with other sources of funding.

Direct pay is non-competitive and limitless.

Direct pay refunds are unrestricted.

IRA ELECTIVE PAY LIGHTHOUSE COHORT

A collaborative effort to demonstrate the viability and utilization of IRA elective pay as a pathway for local clean energy and electrification, supporting 60+ cities with “lighthouse projects” using elective pay. Lighthouse partners give targeted technical assistance across a cohort of early-adopter local governments and eligible entities.



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LAWYERS FOR
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Government Finance Officers Association



Electrification
Coalition



SOUTHEAST SUSTAINABILITY
DIRECTORS NETWORK



urban sustainability
directors network



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TOP 5 LESSONS FROM THE LIGHTHOUSE COHORT ON DIRECT PAY

1. Most local governments have never dealt with the IRS before and can be hesitant to do so.
2. Strong internal department coordination is key to a successful filing.
3. Various tax credit rules can complicate how much a local government receives.
4. Local governments are eager to plan projects around direct pay.
5. Clear guidance, technical assistance, and product support are invaluable for communities navigating these processes for the first time.

EMERGING SUCCESS STORIES

Because of filing timelines, most local and state governments are filing for direct pay **for the first time right now**, and will be receiving their first check in late 2024 or early 2025.

We expect that local governments across the U.S. will receive **tens to hundreds of millions of dollars in direct pay refunds this year.**



This is a picture of a direct pay check received by RE-volv, a national nonprofit which provides other nonprofits with solar leasing and financing options.

EMERGING SUCCESS STORIES



City of Refuge, Baltimore

A 110 kWdc solar and 372 kWh battery system on a local community nonprofit



San Antonio, Texas

13 MWdc of distributed solar across 42 sites, covering 11% of all electricity used for municipal operations



Pateros, Washington

53.96 kWdc local solar for municipal operations

CLEAN ENERGY TAX NAVIGATOR



Clean Energy **TAX NAVIGATOR** Powered by **L4GG**



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THANK YOU!

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