INFLATION REDUCTION ACT DIRECT PAY PROGRAM

The Inflation Reduction Act makes several clean energy tax credits available to tax-exempt entities through its Elective Pay provision (also known as Direct Pay). Direct pay lets such entities receive certain clean energy credits as direct payments on their tax returns, covering a significant portion of project costs. Previously, nonprofits couldn't access these incentives due to their tax-exempt status.

How does my organization qualify for direct pay?

To qualify for direct pay, entities must choose one tax provision, like the Investment Tax Credit (ITC) or the Production Tax Credit (PTC). The ITC is a one-time credit covering 6-30% of project costs, while the PTC is based on electricity generation ($0.5-2.75/kWh) over 10 years. Bonus credits can be combined to cover up to 70% of project costs.

Who is eligible?

- State, local, and territorial governments

- Federally recognized tribal governments and agencies

- Rural energy cooperatives

- Nonprofits, faith-based entities, and other exempt organizations under section 501(a) of the tax code
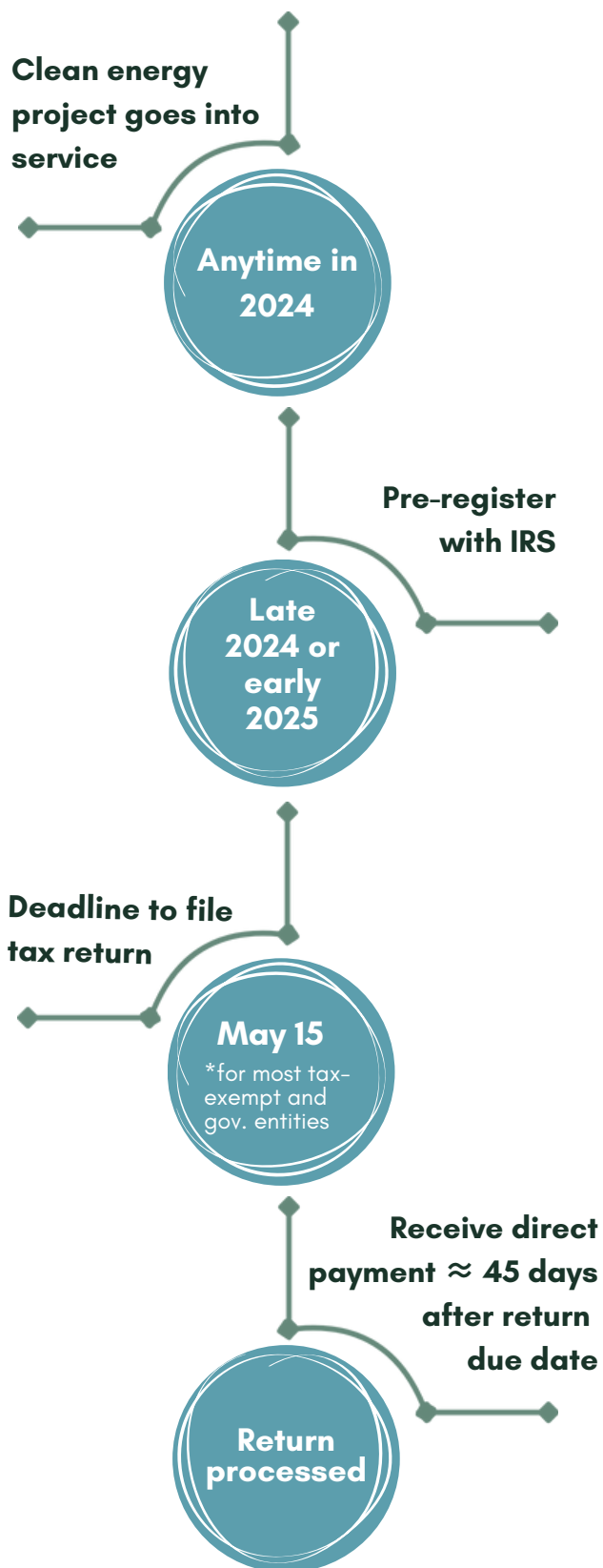
What kind of clean tech is eligible?

Solar, geothermal, small wind projects, microgrid controllers, energy storage, and other clean technologies are all eligible for direct pay.

For more information, please visit or scan this QR code

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Sample timeline of direct pay process:

Clean energy project goes into service

Anytime in 2024

Pre-register with IRS

Late 2024 or early 2025

Deadline to file tax return

May 15
*for most tax-exempt and gov. entities

Receive direct payment ≈ 45 days after return due date

Return processed

What are the steps to apply for direct pay?

- Identify the project and choose the credit you want to pursue
- Complete your project, place it into service, and determine the tax year
- Collect the necessary information (i.e. E.I.N., address, banking information) for pre-registration
- Determine when tax return is due
- Complete pre-filing registration with the IRS at least 120 days before your tax return is due
- Receive your registration number(s) from the IRS and file the tax return by the due date (including extensions)
- Receive direct payment

What is the pre-filing registration process?

Pre-filing registration is a required online process for entities making an elective payment election or credit transfer and is designed to accelerate the tax return processing. Entities must list all credits they plan to claim and the properties contributing to those credits.

How long will it take to receive direct payment?

It can take approximately six to twelve months after an eligible project is placed into service to complete the steps and receive payment.

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