



Fact Sheet

Inflation Reduction Act Clean Energy Opportunity: Direct Pay for Nonprofits and Tax-Exempt Entities

Making investments in clean energy can deliver economic and environmental benefits to nonprofits and other tax-exempt entities as well as the communities they serve. For example, energy costs are the **second-highest operational expense** for many nonprofits. Installing clean energy upgrades, such as solar panels and battery storage systems, in facilities operated by nonprofits helps these organizations save money by lowering monthly utility bills and cutting waste in operations. This promotes sustainability and helps advance their core mission.

What Is Direct Pay?

The *Inflation Reduction Act of 2022* (IRA) (**P.L. 117-169**) reauthorized and expanded a wide array of clean energy tax credits through 2033 and allowed, for the first time, tax-exempt entities to directly access those tax credits through a process called “**direct pay**” (or “**elective pay**”). Qualifying entities can now receive a direct payment from the Internal Revenue Service (IRS) in lieu of a tax credit—a “game changer” that puts clean energy in reach for many organizations.

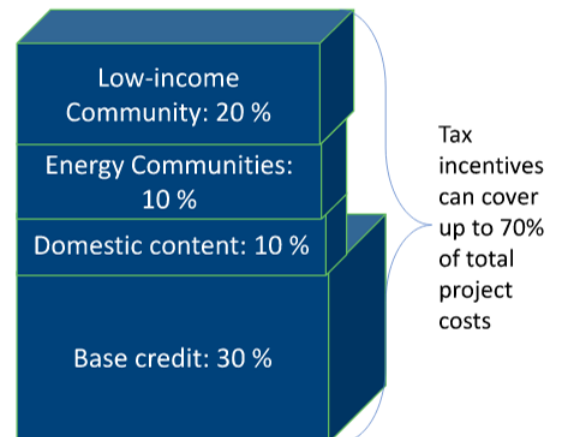
Who Is Eligible for Direct Pay?

Tax-exempt organizations, including nonprofits, state and local governments and their agencies, school districts, churches, tribal governments, rural electric cooperatives, and municipal utilities are eligible for direct pay.

Which Tax Credits Qualify for Direct Pay?

Tax-exempt entities can now monetize **12 different** tax credits. For many nonprofits, these could be the most important:

- **The Investment Tax Credit (ITC)** (§48 of the Internal Revenue Code, pre-2025) and **Clean Electricity Investment Tax Credit** (§48E, 2025 onwards) provide a 30% base credit for solar, ground-source heat pump, and battery storage projects. Depending on the project’s location and whether the materials are sourced domestically, clean energy projects are eligible for additional bonus credits. Projects located in “**energy communities**” can receive a 10-percentage-point bonus on top of the base credit. An additional 10-percentage-point bonus can be claimed for projects using “**domestic content.**” Tax-exempt entities can apply for the **Low-Income Community (LIC) Tax Credit** for another 20-percentage-points through the U.S. Department of Energy’s (DOE’s) **LIC Bonus Credit Program**. Projects under one megawatt are not subject to labor and domestic content requirements.

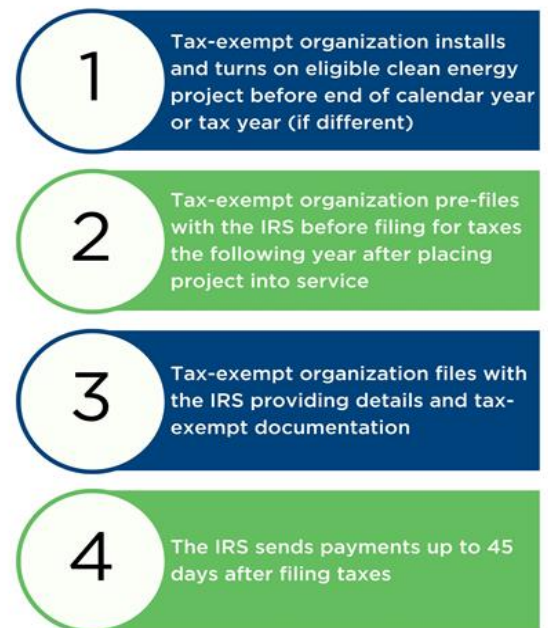


- The **Commercial Clean Vehicle Credit** (§45W) allows tax-exempt entities that buy an electric commercial vehicle as a replacement for a diesel- or gas-powered vehicle to claim a 30% federal tax credit of up to \$40,000. The credit is up to \$7,500 for qualified vehicles with gross weight ratings under 14,000 pounds.
- The **Alternative Fuel Infrastructure Tax Credit** (§30C) provides a 30% tax credit, up to \$100,000 per unit, for electric vehicle charging stations and refueling equipment for alternative fuels such as hydrogen and ethanol.
- The **Commercial Buildings Energy Efficiency Tax Deduction** (§179D) is available for commercial building energy efficiency improvements—including lighting, insulation, as well as heating, cooling, and ventilation equipment—that result in energy savings of at least 25%. Tax-exempt entities can pass the deduction on to a taxpaying entity responsible for the project design and construction (e.g., an engineer, building contractor, or architect). Using the deduction, the tax-liable person or entity can offer lower project costs to the nonprofit.

How Do I Access Direct Pay Credits?

1. Place into service the qualified clean energy project.
2. Collect the necessary information to pre-register your project, such as the tax period, employee identification number, registrant’s address and banking information.
3. Determine your tax year.
4. **Identify your Employer Identification Number** (EIN).
5. **Pre-register your project with the IRS.**
6. Receive your registration number(s) from the IRS.
7. Fill out IRS Forms **3468** and **3800**.
8. File your annual tax return (i.e., **990 T-form**).
9. If an extension is needed, file IRS form **8868**.

Direct Pay Timeline



*The entire process can take anywhere between four and 18 months

Graphic by: Aaron Vincent Facundo, EESI

Resources

Federal Agency Resources:

- **Clean Vehicle and Energy Credits** (IRS)
- **Elective Pay and Transferability** (IRS)
- **Elective Pay Overview** (IRS)
- **Pre-Filing Registration Tool User Guide** (IRS)
- **Frequently Asked Questions: Elective pay** (IRS)
- **Direct Pay Through the Inflation Reduction Act** (White House)
- **Federal Solar Tax Credits for Businesses** (DOE)

EESI Resources

- **Direct Pay: Nonprofits Can Now Benefit from Clean Energy Tax Credits**
- **The Latest on the Clean Energy Tax Incentives in the Inflation Reduction Act**

Author: Miguel Yañez-Barnuevo **Graphics:** Aaron Vincent Facundo **Editors:** Daniel Bresette, Amaury Laporte

This fact sheet is available electronically (with hyperlinks) at www.eesi.org/papers.

The Environmental and Energy Study Institute (www.eesi.org) is an independent nonprofit advancing science-based solutions for climate change, energy, and environmental challenges. Founded on a bipartisan basis by members of Congress, EESI has been informing policymakers about the benefits of energy efficiency, renewable energy, and environmental conservation since 1984. In 1988, EESI declared that all energy policy must be examined through a climate lens, which has since guided us toward our vision: a sustainable, resilient, and equitable world.

