

Federal Policies Supporting Clean Energy for Schools

Inflation Reduction Act and Elective Pay

The Inflation Reduction Act (IRA) of 2022 enabled the largest investment in U.S. history in fighting climate change and building a domestic clean energy economy – estimated to exceed \$370 billion. The landmark commitment includes grants, financing, and tax credits that K-12 schools can receive to support new clean energy projects.

One of the most significant opportunities that the IRA created for K-12 schools and other tax-exempt entities is the ability to receive cash reimbursements for clean energy projects through Elective Pay (also known as Direct Pay).

Prior to the IRA, schools could not directly receive tax credits because they do not have tax liability. Now, schools can receive direct payments from the Internal Revenue Service as cash reimbursements for purchases of clean energy technologies. Unlike grant programs, the tax credits are non-competitive, and there is no cap on the amount that can be received through Elective Pay.

There are several clean energy tax credits that are applicable to K-12 schools through Elective Pay. Through the Investment Tax Credit, schools can receive a payment ranging up to 70% of the cost to purchase and install a solar energy system and up to 50% of project costs for battery storage or ground-source heat pumps. The Commercial Clean Vehicle Credit provides up to \$40,000 for the purchase of electric school buses and up to \$7,500 for electric vehicles under 14,000 lbs. The Alternative Fuel Vehicle Refueling Property Credit pays 6-30% of the cost of electric vehicle chargers and infrastructure upgrades located in low-income and rural areas. The credit can increase to 30% if prevailing wage and apprenticeship requirements are met. The credit is limited to \$100,000 per property.

Inflation Reduction Act

A federal law passed in 2022 that enabled the nation's largest investment in fighting climate change and building a domestic clean energy economy.

Elective Pay

The Inflation Reduction Act enacted Elective Pay (or Direct Pay), a process for schools and other tax-exempt entities to access clean energy tax credits as a refund payment from the Internal Revenue Service.



Overview of the Elective Pay Process

1. Determine your tax year (calendar year or fiscal year).
2. Satisfy all tax credit requirements for the given tax year.
3. Complete pre-filing with the IRS and obtain a registration number.
4. File tax return (Form 990-T and associated forms) with the IRS by the due date.
5. Receive elective payment from the IRS.

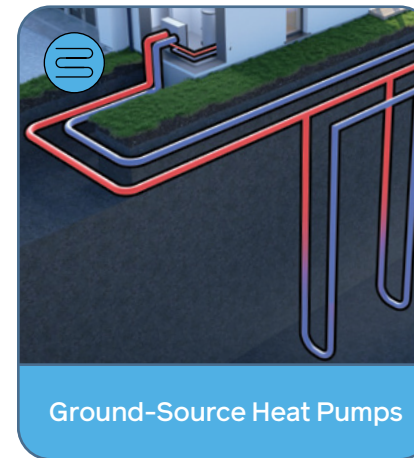
Elective Pay Provides Access to Tax Credits for the Purchase of these Clean Energy Technologies



Solar Photovoltaics



Energy Storage



Ground-Source Heat Pumps



Electric Vehicles



Charging Infrastructure

Tax Credits Available to Schools Through Elective Pay



Investment Tax Credit

- Up to 70% of the total project cost for solar photovoltaic systems
- Up to 50% of the total project cost for energy storage and ground-source heat pumps

INTERNAL REVENUE CODE SECTION 48

WWW.ENERGY.GOV/EERE/SOLAR/FEDERAL-SOLAR-TAX-CREDITS-BUSINESSES



Alternative Vehicle Fuel Refueling Property Credit

- 6% of total costs for electric vehicle charging equipment (30% if prevailing wage and apprenticeship requirements are met)
- Must be located in designated low-income or non-urban census tracts. Maximum of \$100,000 per eligible property.

INTERNAL REVENUE CODE SECTION 30C

WWW.IRS.GOV/CREDITS-DEDUCTIONS/ALTERNATIVE-FUEL-VEHICLE-REFUELING-PROPERTY-CREDIT



Commercial Clean Vehicle Credit

- Up to \$40,000 per electric school bus
- Up to \$7,500 per electric vehicle (< 14,000 lbs)

INTERNAL REVENUE CODE SECTION 45W

WWW.IRS.GOV/CREDITS-DEDUCTIONS/COMMERCIAL-CLEAN-VEHICLE-CREDIT

Inflation Reduction Act and Investment Tax Credit

In addition to enabling schools to take advantage of tax credits through Elective Pay, the Inflation Reduction Act expanded the Investment Tax Credit. Under the IRA, the ITC offers a potential refund of up to 70% of the eligible project costs for solar energy systems by combining base credits and bonus credits. Solar energy projects are eligible for a 30% base credit if the capacity is under 1 MW or if the project meets prevailing wage and apprenticeship requirements (PWA), as determined by the U.S. Department of Labor. Energy storage devices with a minimum capacity rating of five kilowatt-hours (kWh) and ground-source heat pumps are also eligible for a 30% base credit when these requirements are met. Otherwise, the base credit is 6% of the eligible project costs.

There are up to three bonus credits (Domestic Content, Energy Community, and Low-Income Communities) that can be stacked on top of the base credit for a solar project to be eligible for the maximum 70% credit. Projects with energy storage or ground-source heat pumps are eligible for a credit up to 50% of the project costs by obtaining the 30% base credit along with the Domestic Content Bonus Credit (10%) and Energy Community Bonus Credit (10%). The Low-Income Communities Bonus Credit Program applies only to solar and wind projects.

Domestic Content Bonus Credit (10%): Projects that meet domestic content minimums are eligible for a 10 percentage point increase. To qualify, all structural steel or iron products used must be produced in the United States, and a required percentage of the total costs of manufactured products (including components) of the facility need to be mined, produced, or manufactured in the United States. The Internal Revenue Service provides detailed guidance on the domestic content requirements.

Energy Community Bonus Credit (10%): Projects that are located in federally designated energy communities are eligible for an additional 10 percentage point increase. The U.S. Department of Energy (DOE) annually updates the map of eligible energy communities that meet at least one of the requirements for minimum unemployment rate, employment in the fossil fuel industry, a census tract with a closed coal mine or coal plant, or eligible brownfield sites.

Low-Income Communities Bonus Credit (10-20%): This is the only bonus credit for the ITC that requires a separate application and approval for solar project owners. Applications to the program must fall within the program's capacity limits per year and be pre-approved prior to installation of the project. Solar facilities installed in qualifying low-income communities or on federally designated Indian land are eligible for a 10 percentage point increase. Projects that are part of a qualified low-income economic benefit project, such as a community solar project that serves low-income residents, are eligible for a 20 percentage point increase. The U.S. Department of Energy maintains a map of the eligible census tracts that meet the requirements for this program.

The Investment Tax Credit rules described above apply to solar energy and energy storage projects that commence construction (with at least 5% of final qualifying project costs incurred) before January 1, 2025. The Investment Tax Credit will be phased out and replaced by the Clean Electricity Investment Credit (Section 48E of the Internal Revenue Code) for solar energy and energy storage projects that begin construction and are placed in service after December 31, 2024.

Sample of Clean Energy Projects Eligible for the Investment Tax Credit

School District, State	Project Scope	Year Installed	Potential Credit Value
Buncombe County Schools, NC	2.4 MW solar capacity at 4 schools	2023	\$500,000
Maize Unified School District 266, KS	150 kW solar array at 1 elementary school	2023	\$103,500
Manchester Public Schools, CT	Solar array and ground-source heat pump at 1 elementary school	2023	\$2.5 million
Seattle Public Schools, WA	Solar arrays and ground-source heat pumps at 3 elementary schools	2023	\$7.5 million

Tax Credit Trailblazers

Clean energy projects put in service in 2023 are the first to be eligible for tax credits using Elective Pay. The table above includes examples of projects that meet eligibility requirements for the Investment Tax Credit, based on the project scope and year of installation. The potential credit values listed are estimates. The IRS due date for the first Elective Pay filings is November 15, 2024, and the school districts listed above had not received an elective payment as of the time of publication.

