

# Direct Pay: Tax Credits for Clean Energy

## OVERVIEW

New tax credits available through the Inflation Reduction Act (IRA) provide an unprecedented opportunity for communities across America to unlock clean energy financing. Through a provision known as “direct pay,” tax-exempt entities – such as schools, local governments, and nonprofit organizations – can take a lead role in the development and deployment of clean energy projects to enhance resilience, reduce energy costs, and improve community health. MCF is working to ensure that communities in Marin are able to take full advantage of this historic funding to accelerate the energy transition.

## WHAT IS DIRECT PAY?

The IRA offers tax credits for investment in a range of clean energy and energy efficiency technologies, including solar and battery storage. Previously, only tax-liable entities like private energy project developers had been able to take advantage of such credits in the form of a reduced tax obligation. But with the IRA’s establishment of direct pay, entities that don’t owe federal income tax can receive the same benefit in the form of a direct cash payment from the IRS. In effect, direct pay thus functions as a rebate that is paid after a project is placed into service.

One valuable feature of direct pay is that eligible entities can be certain that they will be able to claim reimbursement if program requirements are met. This is in contrast to competitive financing or grant programs, in which interest may exceed available funds. Funding for federal tax incentives is unlimited; anyone who files and meets relevant requirements will be reimbursed. Those using direct pay will receive a cash payment from the IRS.

## WHAT IS DIRECT PAY?

Base tax credits are worth 30% of a project’s total cost. Bonus credits can be stacked to bring the total value of the tax credits to 70% of project costs.

- **Base credit (30%):** For development and installation of clean energy projects.
- **Domestic content (10%):** For use of domestically-produced materials.
- **Energy communities (10%):** For projects in communities most affected by the energy transition.
- **Low-income or Tribal communities (10-20%):** For projects located in low-income or Tribal communities (10%) and on affordable residential housing or part of a qualified economic benefit project in low-income communities (20%). (Note: this is a competitive tax credit.)

## WHO CAN USE DIRECT PAY?

- **Governmental entities**, such as state, Tribal, and local governments, school districts, water districts, libraries, and public universities
- **Nonprofit organizations** that are registered as a 501(c)(3), such as schools, universities, hospitals, and houses of worship
- Other entities exempt from taxation under section 501(a) of the tax code

The tax-exempt entity must own the newly installed or upgraded energy technology to be eligible for direct pay. For example, for a nonprofit to claim tax credits for installation of rooftop solar on its building, the nonprofit must own the solar panels (rather than the solar developer, as is common in solar power purchase agreements).

Tax-liable entities—such as individual homeowners, landlords, and private energy project developers—do not need to use direct pay to access IRA clean energy tax credits. In the above example, if the nonprofit rents from a landlord that owns both the building and newly installed solar panels, the nonprofit would be unable to claim tax credits. Rather, the landlord would claim the tax credits directly. Tax-liable property owners and renters can use the [Rewiring America Incentive Calculator](#) to navigate residential incentives.

## WHAT PROJECTS DO IRA TAX CREDITS FUND?

A [wide range](#) of clean energy technologies are eligible, including:

- Solar energy
- Energy storage
- Clean vehicles
- Electric vehicle charging infrastructure
- Geothermal energy

## INTEREST FORM

Do you have a clean energy project idea that may meet Direct Pay eligibility criteria? Please complete this brief interest form to share about specific projects you're interested in exploring further. This information will help us shape our next steps. Thank you!

[View form](#)

## JUNE 10 WEBINAR ON DIRECT PAY

To view the presentation deck from the June 10 webinar on Direct Pay, [please click here](#)  
To view a recording of the webinar, [please click here](#)

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## ADDITIONAL RESOURCES

### General

- White House [Direct Pay Overview](#) and [Webinar on Direct Pay](#)

- Lawyers For Good Government [Elective Pay and IRA Tax Incentives Resources Page](#)
- BlueGreen Alliance [Making Clean Energy Tax Credits Deliver for the Public: A User Guide for Governments, Schools, and Nonprofits](#)
- Climate United's [Guide to Direct Pay + Tax Financing](#)
- Environmental and Energy Study Institute [Two Pager on Direct Pay](#)

## **Schools**

- Undaunted K12 [Schools and the IRA including 5 Actions to Get Started](#)
- Undaunted K12 [Webinar on Schools and Direct Pay](#)
- Undaunted K12 [Fort River Elementary and the IRA: A Case Study](#)
- IRS [Fact Sheet on Schools and Direct Pay](#)
- Article in EdWeek [Schools Can Use These Little-Known, Unlimited Funds...](#)
- BlueGreen Alliance [Three Pager on Schools and Direct Pay](#)
- Massachusetts Green Building Authority [Webinar on Schools and Direct Pay](#)

## **Local Governments**

- Congressional Progressive Caucus Center and Local Progress Impact Lab: [Cash for Communities: Leveraging Historic Federal Funds for Racial, Economic, and Climate Justice](#)
- National League of Cities: [How Local Governments Can Use Direct Pay on Clean Energy Projects](#)

## **Nonprofits and Community-Based Organizations**

- Clean Energy Group: [What Nonprofits Need to Know When Applying for Direct Pay](#)
- Interfaith Power & Light: [Direct Pay for Houses of Worship](#)
- Energy Tax Savers [Webinar on IRA Clean Energy Tax Credits](#)