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# Monetizing Clean Energy Credits for Tax-Exempt Organizations

June 27, 2024

# Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- There will be 4 knowledge check questions throughout the presentation. You must respond to a minimum of 3 to receive the full 1 CPE credit.

**\*\*Both requirements must be met to receive CPE credit\*\***





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# Learning Objectives



Identify the various tax credit provisions under the IRA for tax-exempt entities



Describe the different credit rates and bonus credits available



Describe the elective pay option for nonprofit organizations



Recall the registration and submission process, including an overview of key IRS due dates for tax filings needed to claim the credits



Discuss tax compliance filing considerations when taxpayers are ready to claim the credits

# IRA Snapshot

Creates and modifies a number of renewable energy credits as well as financing programs

Creates new monetization options for tax-exempt and taxable entities

Section 6417 provides an elective pay option (i.e., cash refund) for:

- Tax-exempt organizations
- State and local governments
- Tribal governments
- Rural electric cooperatives

Section 6418 provides a transferability option for for-profit organizations

- Taxpayers can buy and sell credits for cash

IRS portal launched in Dec. 2023 → registration is live

Treasury and IRS have released some guidance, but more to come



# Refundable/Transferable Credits

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§30C Alternative fuel vehicle refueling property credit

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§45 Electricity produced from certain renewable resources, etc.

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§45Q Credit for carbon oxide sequestration

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§45U Zero-emission nuclear power production credit

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§45V Credit for production of clean hydrogen

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§45W Credit for qualified commercial clean vehicles (elective pay only)

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§45X Advanced manufacturing production credit

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§45Y Clean electricity production credit

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§45Z Clean fuel production credit

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§48 Energy credit

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§48C Advanced energy project credit

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§48E Clean electricity investment credit



# Knowledge *Check*

Under what IRC Section provides tax-exempt organizations an elective pay option to claim cash refunds on a variety of green energy projects?

- Section 6417
- Section 6418
- Section 990
- Section 7510



# Opportunities for Nonprofit



New building construction and renovations



Fleet electrification and charging infrastructure



HVAC improvements



Solar panel installations



Battery storage



Capital project forecasting





# Section 48 Energy Investment Tax Credit

Tax credit for a percentage of the cost of placing specified energy property into service

Base credit rate is 6%

30% if less than 1 megawatt

Applies to:

- Solar
- Wind
- Biogas
- Geothermal
- Energy storage property
- Combined heat and power systems
- Microgrid controllers
- Electrochromic glass



# Section 30C Alternative Fuel Refueling Credit

## Credit Amount

- 6% of the cost of any single item of qualified property not meeting prevailing wage, up to \$100,000
- 30% of the cost of qualified property if prevailing wage is met, up to \$100,000

## Basis and Recapture

- Basis in property must be reduced by amount of the credit
- Basis does not include any property expensed under Section 179
- Recapture required if property ceases to be qualified property



# Census Tract Requirements

- Effective 1/1/23, qualified property must be installed in locations that meet the following census tract requirements:
  - The census tract is not an urban area
  - A population census tract where the poverty rate is at least 20%; or
  - Metropolitan and non-metropolitan area census tract where the median family income is does not exceed 80% of the state median family income level



# Section 45W Clean Vehicle Credit



Applies to clean commercial vehicles and mobile machinery acquired or leased after 2022 and before 2033



Credit equals the lesser of:

- 15% of the vehicle's basis (30% if fully electric) or
- Incremental cost of the vehicle



Max credit is:

- \$7,500 for vehicles less than 14,000 GVWR, and
- \$40,000 for all others





# Bonus Credits



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# Prevailing Wage and Apprenticeship

Increases the base credit by 5X generally

A prevailing wage is a wage the federal government requires to be paid by contractors to workers under the Davis-Bacon Act

Hourly wage plus overtime and benefits as set by the Department of Labor based on the locality where the construction, alteration, or repair is being performed

Apprentices must work a certain percentage of the total labor hours depending on when construction of begins



# Domestic Content Bonus

- Projects are eligible for an additional bonus credit of 2% (10% if 5X multiplier applied) if the following conditions are met:
  - 100% of any steel or iron that is a component of the facility is manufactured in the United States
  - Not less than 40% of the manufactured components of the facility are manufactured in the United States

100% of steel and iron  
produced from the US

At least 40% of  
manufactured  
components produced in  
US



# Energy Communities

- Projects are eligible for an additional bonus credit of 2% (10% if 5X multiplier applied) if the facility is located in any of the following:
  - A brownfield site
  - An area that:
    - Has (or, at any time during the period beginning after December 31, 2009, had) 0.17% or greater direct employment or 25% or greater local tax revenues related to the extraction, processing, transport, or storage of coal, oil, or natural gas, or
    - Has an unemployment rate above the national average for the previous year, or
    - Has a census tract or a census tract that is adjoining a census tract in which a coal mine has closed after 1999 or a coal-fired electric generating unit was retired after 2009





# Low-Income Communities



Project is built in a low-income community as defined by the New Markets Tax Credit or on Indian Land can receive an increased tax credit of 10%



Project associated with a low-income residential building project, or a low-income economic benefit project, can receive an increased tax credit of 20%

# Knowledge *Check*

How likely is your organization to consider a green energy investment (e.g. solar, geothermal or electric vehicles)?

- Very likely
- Likely, but not in the next 12 months
- Not likely





# Grants and Restricted Tax-Exempt Amounts



# Grant Funding

Grant funding **may** reduce otherwise allowable credits

## Excess benefit rule

- If a grant, forgivable loan, or other exempt income is received for the specific purpose of purchasing or constructing ITC property, and the sum of such amounts plus the applicable credit otherwise determined with respect to that property exceeds the cost of the property, then the amount of the applicable credit is reduced so that the total amount of applicable credit plus the amount of any restricted tax-exempt amounts equals the cost of investment-related credit property



# Grant Funding

The determination of whether a tax-exempt grant is made for the specific purpose of purchasing, constructing, reconstructing, erecting, or otherwise acquiring ITC property is made at the time the grant is awarded to the applicable entity

A tax-exempt grant awarded after the property is purchased, constructed, etc. is generally not a restricted tax-exempt amount unless approval of the grant was perfunctory and the amount of the grant was virtually assured at the time of application



# Grant Funding

## Examples of tax-exempt amounts that are not restricted tax-exempt amounts are:

- A tax-exempt amount from the organization's general funds is not a restricted tax-exempt amount, and
- A tax-exempt amount's use that is not restricted to the purpose of purchasing, constructing, reconstructing, erecting, or otherwise acquiring ITC property (such as purchasing an electric vehicle) and could be used for any of several different applicable credit properties (such as purchasing an electric vehicle or purchasing solar panels) or can be put to other purposes (such as purchasing an electric vehicle or making a building more energy efficient)





# Credit Monetization



# Claiming Direct Payments

Pre-filing  
registration

- Must be completed prior to filing the tax return where a direct pay election is made
- IRS is advising a minimum of 120 days to process registrations
- Must provide certain information about organization, the credits you intend to claim, and details regarding the property giving rise to the credit
- A registration number will be issued that will be required when making the election on tax return
- IRS will issue a separate registration number for each applicable credit property





# Knowledge *Check*

At the very least, how long is the IRS advising taxpayers to start the pre-registration process for claiming direct payments?

- 60 days
- 90 days
- 120 days
- 180 days



# Claiming Direct Payments

Making the election on a tax return

- Must be made on a timely filed return (including extensions)
- Cannot be made on an amended return
- Must be filed on Form 990-T by due date along with:
  - Form 3800 (General Business Credit)
  - Applicable credit form
  - Information from registration
- State and local governments that do not file a tax return will need to file a Form 990-T for this limited purpose
- Don't need to have taxable unrelated business income to get refund!



# Claiming Direct Payments

Practical considerations

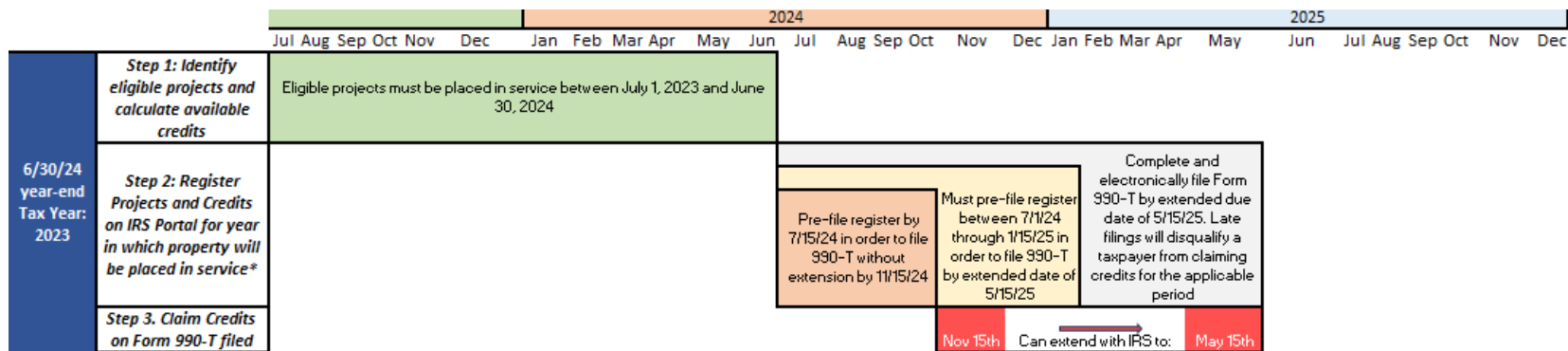
- Applicable for tax years beginning after December 31, 2022 – fiscal year filers file for credits for FY24
- No quick refunds (Form 4466) available – need to wait for the tax year end in order to file
- Tax credit is deemed to be paid on original due date of Form 990-T
- Credits cannot be used to reduce quarterly estimated tax requirements
- Credits cannot be used to offset excise taxes under Sections 4960 or 4968



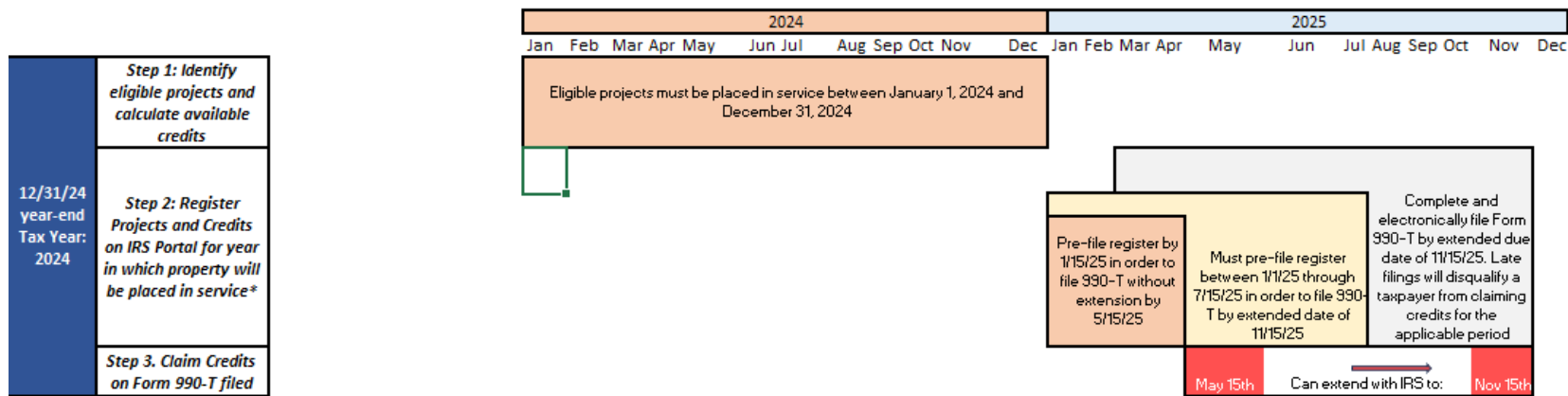


# Timetable for Important Dates for Nonprofit Organizations





*\*IRS recommends completing 4 months prior to receive registration number timely by filing date*



*\*IRS recommends completing 4 months prior to receive registration number timely by filing date*



# Knowledge *Check*

Did you find the information in this CLA webinar helpful to you and your organization or business?

- Yes
- No



*Thank you!*

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