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Inflation Reduction Act: Opportunities for CBDOs

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Disclaimers

- The content in this presentation is provided for general informational purposes only and **is not tax guidance**.
- The information shared relies upon simplifications and generalizations to convey high-level points about the Inflation Reduction Act tax and other provisions.
- Content in this presentation is based on regulations and other tax guidance provided at IRS.gov. Please refer to guidance issued by the IRS for detailed and authoritative information.

Inflation Reduction Act: Opportunities for Community-Based Development Organizations (CBDOs) – Agenda

- Nonprofits (e.g. CBDOs) and the IRA
 - How CBDOs can leverage the IRA for building/facility upgrades
 - *Key Provisions: Direct Pay, ITC, 30C*
- Housing Developers/Building Owners and the IRA
 - How CBDOs can leverage the IRA for housing development projects
 - Ensuring that CBDO borrowers with housing development projects understand IRA opportunities
 - *Key Provisions: 45L, 179D, DOE Rebates, ITC, 30C*
- Individuals/Families and the IRA
 - Ensuring that individual/household borrowers from CBDOs understand IRA opportunities
 - *Key Provisions: 25C, 25D, 25E, 30D, 30C, DOE Rebates*
- Q&A – 15 Minutes

The Inflation Reduction Act

- The Inflation Reduction Act (IRA) is the **largest investment in clean energy** in United States history, and much of that investment is **delivered via tax incentives**.
- The Treasury Department is the federal agency responsible for **administering the tax code** and is **playing a central role** in implementing the Inflation Reduction Act's clean energy tax incentives.
- The IRA includes **tax incentives for a broad range of activities and types of beneficiaries**, as well as **certain cross-cutting provisions and bonuses** that apply to multiple incentives, making them more accessible and/or financially significant.

Key Tax Credits/Provisions for CBDOs & Other Nonprofits

Building/Facility Clean Energy Upgrades

- Direct Pay/Elective Pay
- Investment Tax Credit (ITC) (48, 48E) – IRS Form 3468
 - covers solar microgrids; rooftop solar panels; battery energy storage; geothermal heat pump energy systems; wind energy systems; fuel cell projects; biomass energy plants; microgrid controllers; and combined heat and power properties.
 - 48E is tech-neutral, and applies to projects that begin construction and are placed in service after 2024
- Charging/Refueling Stations Credit (30C) – IRS Form 8911
- Bonus Credits
 - Low-Income Communities Bonus Credit
 - Energy Communities Bonus Credit
 - Domestic Content Bonus Credit

Potential Benefits for CBDOs and Other Nonprofits

- Immediate savings through reduced costs for equipment and labor/installation
- Month-to-month, ongoing savings (e.g. reduced monthly utility bill payments)
- Ability to channel the funds saved into other mission-based activities and initiatives
- For solar and battery storage installation, ability to provide place of refuge, resilience hub, etc. to surrounding community during power outages and other periods of need
- Ability to inspire action by individuals/families in the surrounding community, serving as a symbolic leader in the clean energy transition

Direct Pay/Elective Pay

- Given that most IRA investment is provided through tax incentives, measures needed to be taken to ensure tax-exempt entities could benefit.
- Under a novel provision known as “**Direct Pay**”, nonprofits – despite being tax exempt – can benefit from these incentives and receive tax-free cash payments to cover a portion of the cost of major capital investments, as long as all requirements are met, including a pre-filing registration requirement.
- Tax credits can provide significant levels of assistance to nonprofits as they complete solar or other clean energy installations.
- The tax incentives accessed through Direct Pay are generally uncapped in amount and are not subject to a competitive process, as with many grant programs.

Key Terms: Investment Tax Credit (ITC) (48/48E)

For investment in renewable energy projects, including solar, wind, geothermal properties

- Credit Amount: **6%** baseline for a qualified investment
 - Increases to **30%** for projects:
 - smaller than 1 MW; or
 - that meet [prevailing wage and registered apprenticeship \(PWA\) requirements](#)
 - Many nonprofit installations are likely to be smaller than 1 MW (e.g. a recent project at Watts-Willowbrook Church in Compton, CA involved a 12 kW solar panel system)
- Bonus Credits may increase the tax credit amount further
 - Low-Income Communities – 48(e) (10-20%) (requires special application)
 - Initial 30-day application window closed on June 27; applications now accepted on rolling basis
 - 1.8 gigawatts (GW) each year
 - Energy Communities (10%) – brownfields, fossil fuel employment, coal mine closure sites
 - Domestic Content (10%) – for steel or iron, and manufactured products

Key Terms: EV Charging/Refueling Station Credit (30C)

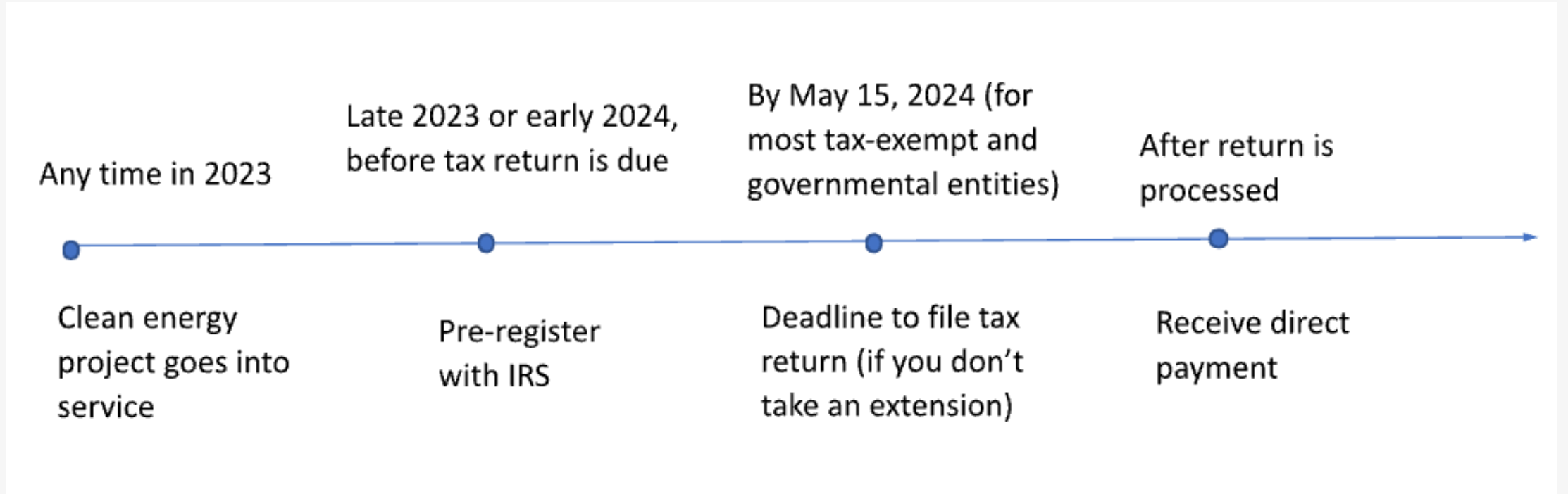
For alternative fuel vehicle refueling and charging property, located in low income and non-urban areas

- **Credit Amount:** Base-level 6% credit that increases to 30% if PWA requirements are met (\$100,000 limit)
- **Installation Location Requirement:** Must be installed in a qualifying census tract
 - Map of qualifying census tracts (low-income or rural communities) is available here: [Refueling Infrastructure Tax Credit | Argonne National Laboratory \(anl.gov\)](#)
- **Other Notes:**
 - The credit can be claimed based upon the “placed-in-service” date
 - Alternative fuels include electricity, ethanol, natural gas, hydrogen, biodiesel, etc.
 - Property may be publicly accessible, serving CBDO staff, others in the neighborhood, or others passing through the neighborhood

How to Make Claim For Direct Pay

- **Identify and pursue** the qualifying project or activity.
 - You will need to know what applicable credit you intend to earn and use Direct Pay for.
- **Complete** your project and place it into service.
- **Determine** your tax year, if not already known, to determine when your tax return will be due.
- **Complete** pre-filing registration with the IRS after earning the underlying credit.
 - This will include the credit(s) you intend to earn, among other information.
 - Upon completing this process, the IRS will provide you with a registration number for each applicable credit property.
 - **Registration is not a determination of the amount or validity of a credit**
- **File** your tax return (Form 990-T and other relevant tax forms) by the due date (or extended due date) and make a valid direct pay election.
 - Provide your registration number on your tax return as part of making the direct pay election.
 - A valid election allows you to receive payment as a refund for the amount of the credit (or if applicable, offset your tax liability and receive a payment for any remaining amount).
- **Receive** payment after the return is processed.

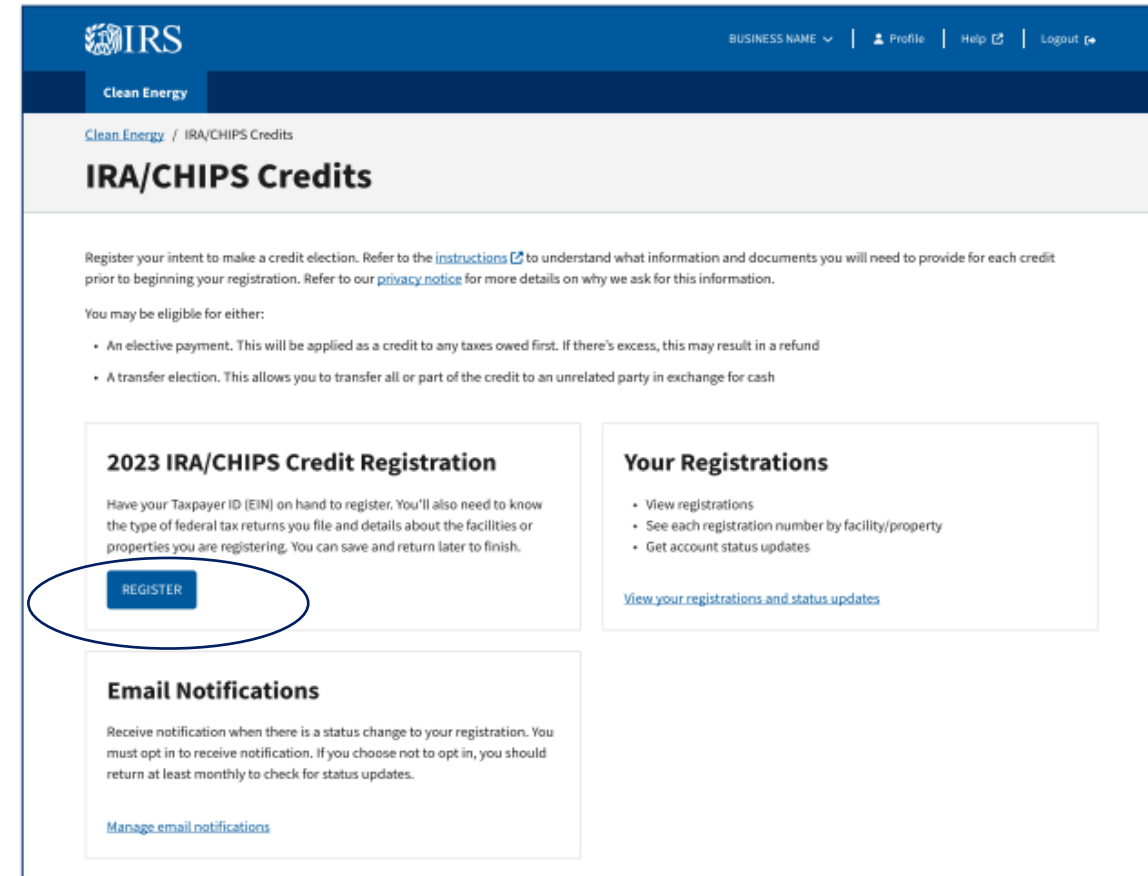
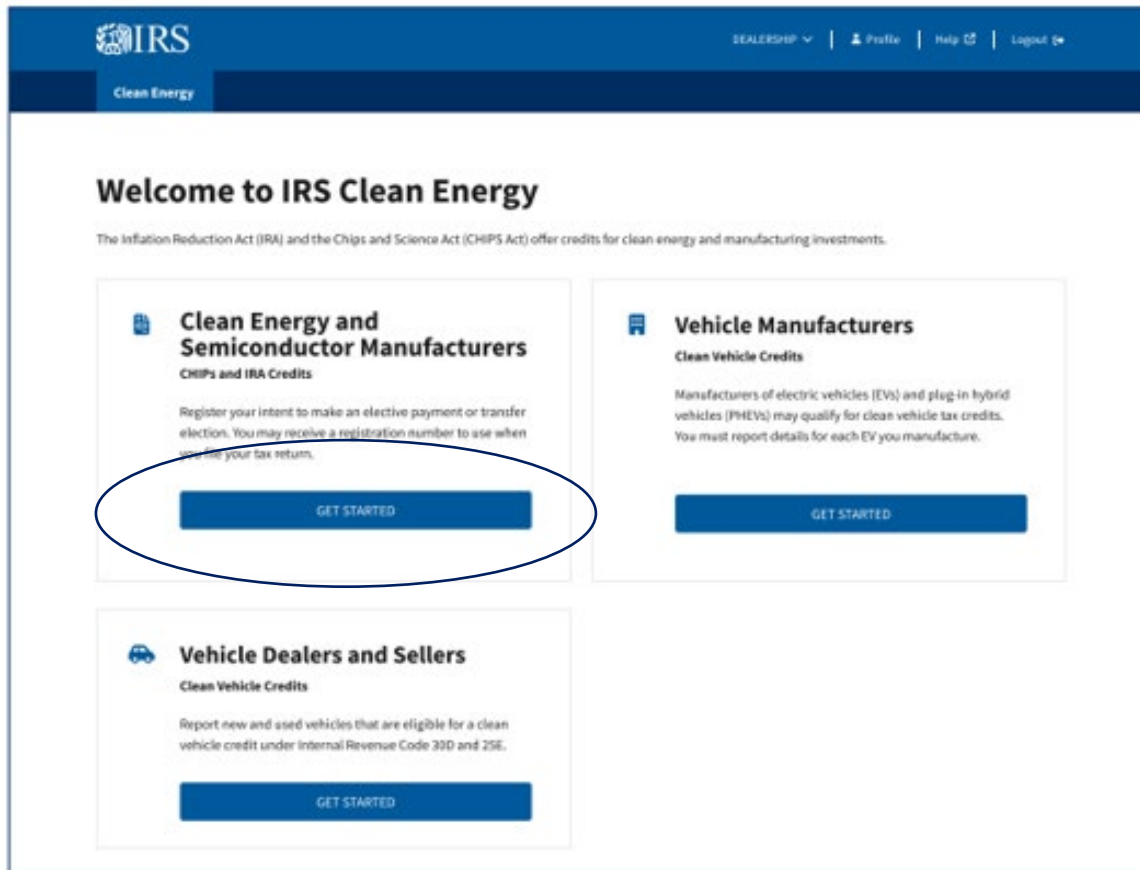




Direct Pay – Illustrative Timeline

Pre-Filing Registration: Step by Step

You must create a Clean Energy Business Account for your organization at www.irs.gov/eptregister. You can then begin the registration process. Only an authorized representative of the entity may register and provide information and this representative's personal identity will be verified during the registration process.



Key Tax Credits/Incentives for Housing Development Projects

Multifamily Developers, Building Owners, Landlords

- Investment Tax Credit (ITC) (48, 48E) – IRS Form 3468
 - covers solar microgrids; rooftop solar panels; battery energy storage; geothermal heat pump energy systems; wind energy systems; fuel cell projects; biomass energy plants; microgrid controllers; and combined heat and power properties.
 - 48E is tech-neutral, and applies to projects that begin construction and are placed in service after 2024
- New Energy Efficient Homes Credit (45L) – IRS Form 8908
- Energy Efficiency Commercial Buildings Deduction (179D) – IRS Form 3115
- DOE Rebates Programs (HOMES & HEAR)

Potential IRA Benefits for Developers/ Building Owners

- Immediate savings through reduced costs for equipment and other building components
- Reduced energy usage over the long term, benefiting both the building owner and building residents
- For solar and battery storage installation, ability to maintain power during power outages
- For solar, in certain jurisdictions, ability to monetize extra energy produced, generating a supplemental revenue stream
- Ability to market to potential tenants interested in “green” living



Key Terms: New Energy Efficient Homes Credit (45L)

- The 45L Tax Credit applies only to new construction or substantial reconstruction/rehabilitation
 - Homes can be sold or rented
 - Homes can be single-family, manufactured or multi-family
- Tax credit is up to \$5,000 per home/unit
- To qualify for the credit, the home must meet relevant [Energy Star National Program requirements](#) (up to \$2,500 per home/unit)
 - Energy Rating Companies can certify Energy Star standards are met
- To qualify for the increased credit, the home must meet [Department of Energy Zero Energy Ready Program requirements](#) (up to \$5,000 per home/unit)
- Note: For CBDOs and other nonprofits, 45L is not eligible for Direct Pay

Key Terms: Energy Efficiency Buildings Deduction (179D)

- The 179D Tax Credit applies to existing building retrofits and new construction
- Relevant energy efficiency measures relate to:
 - the interior lighting systems,
 - the heating, cooling, ventilation, and hot water systems, or
 - the building envelope.
- 179D deductions become available if building is certified by a licensed contractor/engineer
 - The certification confirms that energy/power savings amount to at least 25%
 - DOE publishes a list of [software programs](#) that can be used to calculate savings
- The 179D deduction amount is up to \$5.00 per square foot (from \$1.80 pre-IRA)
 - The maximum deduction requires that energy savings reach 50% and PWA requirements are met
- Note: For development projects advanced by CBDOs and other nonprofits that can not leverage the deduction, the value of the deduction can be transferred/allocated to the designer/contractor



Key Terms: DOE Rebate Programs (HOMES/HEAR)

- DOE Rebates for whole-home retrofits (HOMES) and for certain electrification upgrades (HEAR) that are available in the single-family housing context may also be available in multifamily buildings where:
 - Rebate Program requirements are met (at least 50% of the households have incomes below 80% AMI or below 150% AMI; 20% or more in modeled energy savings; eligible electrification projects/appliances; not for new construction, etc.)
- Rebates can amount to up to \$8,000 or \$14,000 per unit, generally
- States may have differing approaches to the portion of their Rebate Program funds made available for multifamily contexts
- Once state programs launch, developers/building owners can seek to reserve a rebate allocation

Key IRA Tax Credits/Rebates for Consumers

- Energy Efficient Home Improvements Credit (25C) – IRS Form 5695
 - covers heat pumps, heat pump water heaters, other water heaters, biomass stoves/boilers, other boilers, central air conditioners, furnaces, energy audits, doors, windows/skylights, insulation/air sealing materials, electric panel/circuit upgrades, etc.
- Residential Clean Energy Credit (25D) – IRS Form 5695
 - covers solar panels, battery storage, solar water heaters, geothermal heat pumps, small wind energy projects, and fuel cell property
- New Clean Vehicles Credit (30D) – IRS Form 8936
- Previously-Owned Clean Vehicles Credit (25E) – IRS Form 8936
- Charging Stations/Refueling Property Credit (30C) – IRS Form 8911
- Home Efficiency Rebate (50121) – State-based Application
 - covers whole-home retrofits; equipment/product/technology agnostic
- Home Electrification & Appliance Rebate (50122) - State-based Application
 - covers heat pumps, heat pump water heaters, heat pump clothes dryers, electric cooktops/ranges/ovens, electric panel/circuit upgrades, electric wiring, insulation/air sealing materials/ventilation



Potential Benefits for Consumers/Households

- Reduced purchase price for clean energy installations, energy efficiency upgrades and EV-related expenditures
- Reduced monthly expenses for utilities and/or energy usage
- Improved family health outcomes
- Improved comfort within the home
- For solar and battery installations, increased resilience during power outages



Key Terms: 25C (Heat Pumps, Water Heaters, etc.)

- **Credit Amount:** Tax credit covers 30% of the cost, up to certain annual limits
- **Product Eligibility:** Product purchased must be a qualifying product
 - Heat pumps/heat pump systems, water heaters, central air conditioners, furnaces, boilers must meet Consortium for Energy Efficiency (CEE) highest efficiency tier, not including any advanced tier
 - Exterior doors must be ENERGY STAR certified in the relevant climate zone; Exterior windows and skylights must meet the ENERGY STAR Most Efficient standard
 - Insulation must meet International Energy Conservation Code standards
 - Panelboards must be installed according to National Electric Code and have a load capacity of at least 200 amps
- **Credit Maximums:** Tax credit amount is capped at various levels annually, depending upon the product
 - \$2,000 in total for a heat pump/heat pump system, heat pump water heater, biomass stove, and/or biomass boilers
 - \$1,200 in total for all other 25C upgrades, with maximums applicable to individual products
 - The credit maximum resets each year and there is no lifetime cap
- **Taxpayer Income limits:** No taxpayer income limits



Key Terms: 25D (Solar Panels, Battery Storage, etc.)

- **Credit Amount:** Tax credit covers 30% of the cost, including labor and installation
- **Product Eligibility:** Product purchased must be a qualifying product
 - Battery storage must have a minimum capacity of at least 3 kWh
 - Solar water heaters must be certified by the Solar Rating and Certification Corporation
 - Geothermal heat pumps must be ENERGY STAR certified
- **Credit Maximums:** Tax credit amount is uncapped, except with regard to fuel cell property expenditures
 - \$500 cap for each half kw capacity of the fuel cell property, or \$1,667 for each half kw in a residence jointly occupied by two or more individuals
- **Taxpayer Income Limits:** No taxpayer income limits
- **Other Taxpayer Criteria:** Must be installed in a residence used by the taxpayer (must be principal residence for fuel cell expenditures)

Key Terms: 30D (New Clean Vehicles)

- **Credit Amount:** Up to \$7,500
 - Tax credit amount is \$7,500 if both the critical minerals requirement (\$3,750) and the battery components requirement (\$3,750) are met
- **Vehicle Eligibility:** Vehicle purchased must be a qualifying vehicle:
 - Learn about eligible models at www.FuelEconomy.gov
 - MSRP cannot exceed \$80,000 (SUV/Truck/Van) or \$55,000 (Other Vehicles)
 - Must have a battery capacity of at least 7 kWh, and weigh less than 14,000 lbs. (or be a fuel cell vehicle)
 - Vehicle eligibility is confirmed at the time-of-sale (dealer must successfully submit time-of-sale report to the IRS, and provide a copy to the buyer)
- **Taxpayer Income Limits:**
 - Married filing jointly and surviving spouses, \$300,000 or less (modified adjusted gross income)
 - Head of household, \$225,000 or less (modified adjusted gross income)
 - Other tax filing status, \$150,000 or less (modified adjusted gross income)

Key Terms: 25E (Previously-Owned Clean Vehicles)

- **Credit Amount:** 30% of the sales price, up to \$4,000
- **Vehicle Eligibility:** Vehicle purchased must be a qualifying vehicle:
 - Learn about eligible models at www.FuelEconomy.gov
 - Sales price cannot exceed \$25,000
 - Vehicle eligibility is confirmed at the time-of-sale (dealer must successfully submit time-of-sale report to the IRS, and provide a copy to the buyer)
- **Taxpayer Income Limits:**
 - Married filing jointly and surviving spouses, \$150,000 or less (modified adjusted gross income)
 - Head of Household, \$112,500 or less (modified adjusted gross income)
 - Other tax filing status, \$75,000 or less (modified adjusted gross income)



Key Terms: 30C (EV Charging/Refueling Stations)

- **Credit Amount:** Tax credit covers 30% of the cost
- **Credit Maximum:** Tax credit amount is capped
 - Up to \$1,000 for eligible EV charging equipment or other alternative fuel refueling property
- **Other Criteria:** Taxpayer must install in a qualifying census tract
 - Map of qualifying census tracts is available here: [Refueling Infrastructure Tax Credit | Argonne National Laboratory \(anl.gov\)](#)
- **Other Notes:** Alternative fuels include electricity, ethanol, natural gas, hydrogen, biodiesel, etc.

“Stacking” Tax Credits and Rebates

Hypo: Household at 120% AMI purchases a heat pump that qualifies for both the HEAR Rebate and the 25C tax credit.

EXAMPLE	
Heat Pump	\$12,250
Labor/Installation	\$750
Total Cost	\$13,000
LESS: Rebates (50%)*	(\$6,500)
LESS: Tax Credit (30% of Reduced Cost Basis) **	(\$1,950)
Cost to Consumer (after Rebate/Tax Credit)	\$4,550
<i>Immediate Cost to Consumer/Financing Need</i>	<i>\$6,500</i>

* The maximum rebate amount for a heat pump under the HEAR program is \$8,000.

** The 30% tax credit is applied to the purchase price after being reduced by the rebate amount.



Key Potential Roles for CBDOs

- **Direct Uptake of Key IRA Benefits**
- **Communicate/Engage with Potential IRA-Eligible Borrowers**
 - Conduct outreach to developers/building owners, consumers, etc. to ensure they are informed about loan options and the related tax credits and other benefits
- **Coach and Support Potential Borrowers**
 - Provide financial coaching, to help beneficiaries assess potential cost savings and other benefits
- **Build Out Data/Information on Emerging Ecosystem**
 - Track loans and other forms of assistance provided to facilitate clean energy/energy efficiency transitions, to help assess market size/growth and economic/climate impact
- **Launch New Financial Tools**
 - Develop specialized loan products that help borrowers making clean energy/energy efficiency transitions, taking into account tax credits and other benefits (long-term low interest loans, bridge financing, etc.)

Further Background Materials

- [IRS.gov/ElectivePay](https://www.irs.gov/ElectivePay)
- [Pre-filing Registration User Guide](#); [How-to-Video](#)
- [Permission Management User Guide](#)
- [Direct Pay: FAQs](#)
- [CleanEnergy.gov/DirectPay](https://www.CleanEnergy.gov/DirectPay)
- Tax Credits for Nonprofits ([Publication 5817-G \(6-2023\) \(irs.gov\)](#))
- Direct Pay One-Pager ([Publication 5817-D \(Rev. 4-2024\) \(irs.gov\)](#))

Further Background Materials

- Tax Credits for Individuals ([Publication 5886-A \(Rev. 1-2024\) \(irs.gov\)](#))
- 25C One-Pager ([Publication 5967 \(5-2024\) \(irs.gov\)](#))
- 25D One-Pager ([Publication 5968 \(5-2024\) \(irs.gov\)](#))
- 25C and DOE Rebates ([Coordinating DOE Home Energy Rebates with Energy-Efficient Home Improvement Tax Credits: An Explainer | U.S. Department of the Treasury](#))
- Energy Star Incentive Finder ([ENERGY STAR Home Improvement Savings | EPA ENERGY STAR](#))

Inflation Reduction Act: Opportunities for CBDOs

Recap

- Nonprofits (e.g. CBDOs) and the IRA
 - How CBDOs can leverage the IRA for building/facility upgrades
 - *Key Provisions: Direct Pay, ITC, 30C*
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Q&A

End Card

