



# Direct Pay Tax Credits for Municipalities, School Districts, and Non-Profits

September 24, 2024

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# Introducing Sustainable Jersey

- **Certification program** for municipalities and schools in New Jersey
- **Tools, resources, and guidance** to help municipalities and schools become more sustainable
- **Grants and funding** for municipalities and schools
- **Regional Hubs**





# Statistics

2009  
Program  
Started

82%  
Participating

91%  
Population



130  
Certified



69  
Certified



4 Stars

15,735

Actions  
Implemented



Statistics current as of 3/3/23



# Statistics

2014  
Program  
Started

67%  
Districts  
Participating

1,183  
Schools  
Registered



293  
Certified



44  
Certified



47 Digital  
Schools  
Stars

8,859

Actions  
Implemented



Statistics current as of 4/22/24

# Agenda

## Direct Pay Overview

## Madison Case Study

*Peter Fried, SMAC Volunteer*

## Direct Pay Eligibility

- *Eligible Entities*
- *Eligible Projects*

## Direct Pay Adders

## Planning Projects for Direct Pay

## Filing for Direct Pay

## Resources

## Questions and Answers





# Disclaimer

These slides give a general overview of some Inflation Reduction Act tax provisions and are for informational purposes only. They are not meant to be tax guidance.

For detailed information, please check the guidance issued by the IRS for [Elective pay and transferability](#).



# Direct Pay/Elective Pay Overview

- Allows tax-exempt and governmental entities, including municipalities and school districts, to receive payment equal to tax credits for qualifying clean energy projects
- Not a competitive grant and loan program, payment is issued if entity meets eligibility requirements
- Direct Pay is currently authorized for 10 years
- Entities file for tax credit when the project is completed
- Eligible entities typically must be sole project owner to take advantage of Direct Pay program

## Eligible Projects Include

- Electric Vehicles
- Some EV Charging Equipment
- Renewable Energy Projects – Solar, Wind Geothermal
- Battery Storage
- Microgrids





# Direct Pay Case Study: Borough of Madison Experience with Direct Pay

Peter Fried, SMAC Volunteer



# Borough of Madison Experience with Direct Pay

Christine Mahler, Tax Manager, Madison

James Burnet, Madison Deputy Administrator

Peter Fried, SMAC Volunteer

- Pre-registered in April 2024: [www.IRS.gov/EPTRegister](https://www.irs.gov/EPTRegister)
- Received Pre-registration number
- Applied in May 2024 for \$7500 each for two EV Bolts bought in 2023
- “Practice Run” for a 2025 application for our first municipal solar carport
- A tax attorney said the legal expense would exceed the \$15,000 to be gained, so we should skip it.....so we did it ourselves. 😊
- Forms are:
  - (for a municipality) IRS 990-T, tax return for a tax-exempt organization
  - (for a vehicle) IRS 8936 and 8936A (Part V),
  - IRS 3800 (Part III, 1-aa), General Business Credits
- September 2024: No response yet from IRS



# Direct Pay Eligibility



# Direct Pay Eligibility

- Tax-exempt organizations, including municipalities and school districts, are eligible for Direct Pay tax incentives.
- Eligible entities typically must be sole owners of project to take advantage of Direct Pay program.



Runnemedes Code Enforcement EV at the Green Fair





# Direct Pay Eligible Projects

Category	Eligible Projects	Base Tax Credits
<b>Qualified Commercial Clean Vehicles</b>	qualifying clean vehicles e.g. EVs and Plug-in Hybrids  For eligible vehicles, see: <a href="https://www.irs.gov/credits-deductions/commercial-clean-vehicle-credit">irs.gov/credits-deductions/commercial-clean-vehicle-credit</a>	Up to \$7,500 per light vehicle  Up to \$40,000 per larger vehicle
<b>AFV Refueling/Charging Equipment</b> (non-urban and low-income)	qualified fuels include electricity, ethanol, natural gas, hydrogen, and biodiesel	Up to 30% for eligible equipment
<b>Investment Tax Credit</b> (Most municipal and school renewable energy projects fall into this category.)	solar, geothermal, small wind, energy storage, fuel cells, biogas, microgrid controllers, and combined heat and power properties	Typically 30% of costs
<b>Production Tax Credit</b>	wind, biomass, geothermal, solar, small irrigation, landfill and trash, hydropower, marine and hydrokinetic energy	Varies by project type




Full list of Direct Pay eligible tax credits at [irs.gov/pub/irs-pdf/p5817g.pdf](https://www.irs.gov/pub/irs-pdf/p5817g.pdf).

# Alternative Fuel Vehicle Refueling Property Credit (30C credit)

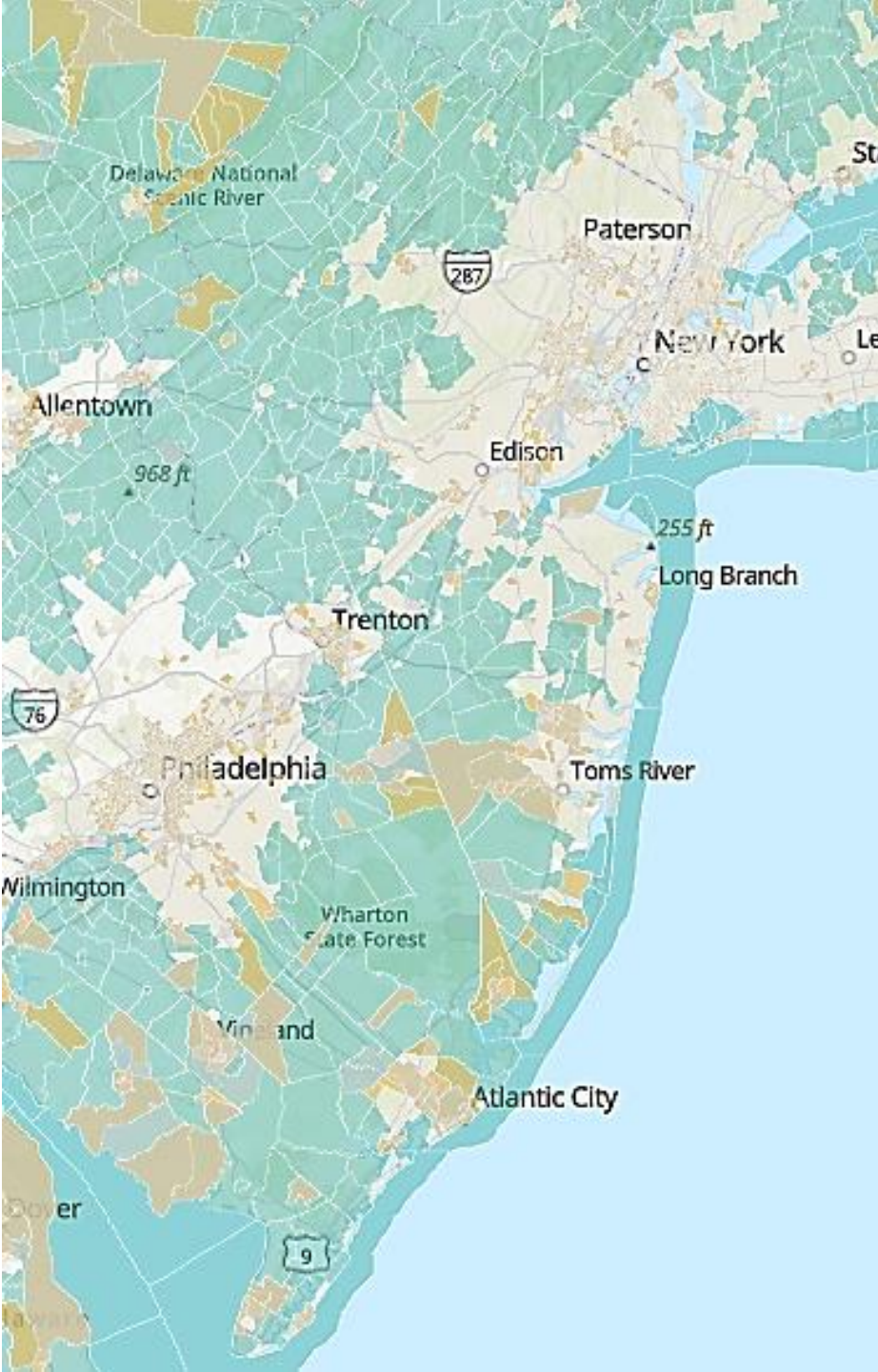
Eligible census tracts fall into two categories and eligible property can be in either type of tract (or both, if the tract falls under both categories) to qualify:

- 1. Low-income community census tracts:** Population census tracts as described in Internal Revenue Code section 45D(e), i.e., the “low-income community” definition of the New Markets Tax Credit (NMTC).
- 2. Non-urban census tracts:** Population census tracts defined as “not an urban area” (or “non-urban area”) according to Treasury/IRS guidance.

**Time periods when property would need to be installed in order to qualify in either census tracts:**

-  Eligible tract through 2024 (2011-2015 NMTC tracts)
-  Eligible tract through 2029 (2016-2020 NMTC tracts)
-  Eligible tract through 2030 (2020 Non-Urban tracts)

At right: Screenshot of U.S. DOE map of eligible locations for Alternative Fuel Vehicle Refueling Property Credit in New Jersey. <https://experience.arcgis.com/experience/3f67d5e82dc64d1589714d5499196d4f/page/Page/>





# Direct Pay Adders





# Direct Pay Adders

Adders are additional

Domestic  
Content  
Bonus

tax credits that can be

Prevailing  
Wage and  
Apprenticesh  
ip (PWA)

layered onto base tax credits

Energy  
Communities  
Bonus

Low-Income  
Communities  
Bonus Credit  
Program  
(LICB)

In some cases,  
the “adders”  
can also result  
in a **penalty**, or  
a **reduction in  
credit**.

## Example

Eligible project cost \$100,000

Base Incentive – 30% -\$ 30,000

### Adders:

Domestic Content bonus -\$ 10,000

Low-Income Communities  
Bonus Credit Program -\$ 10,000

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Cost to Entity \$ 50,000

# Direct Pay Adders – Domestic Content

- ❑ Build America/Buy America (BABA)  
Compliant projects **+10%** adder
- ❑ Non-compliant projects:
  - EVs, EVSE, and renewable projects under 1MW = no penalty
  - Renewable energy projects over 1MW = **penalty**, starting in 2024

## BABA Eligible Products

- Iron and Steel (structural) 100% US source
- Manufactured products 40% US source, percentage increases in three years.

Entities can apply for exceptions.

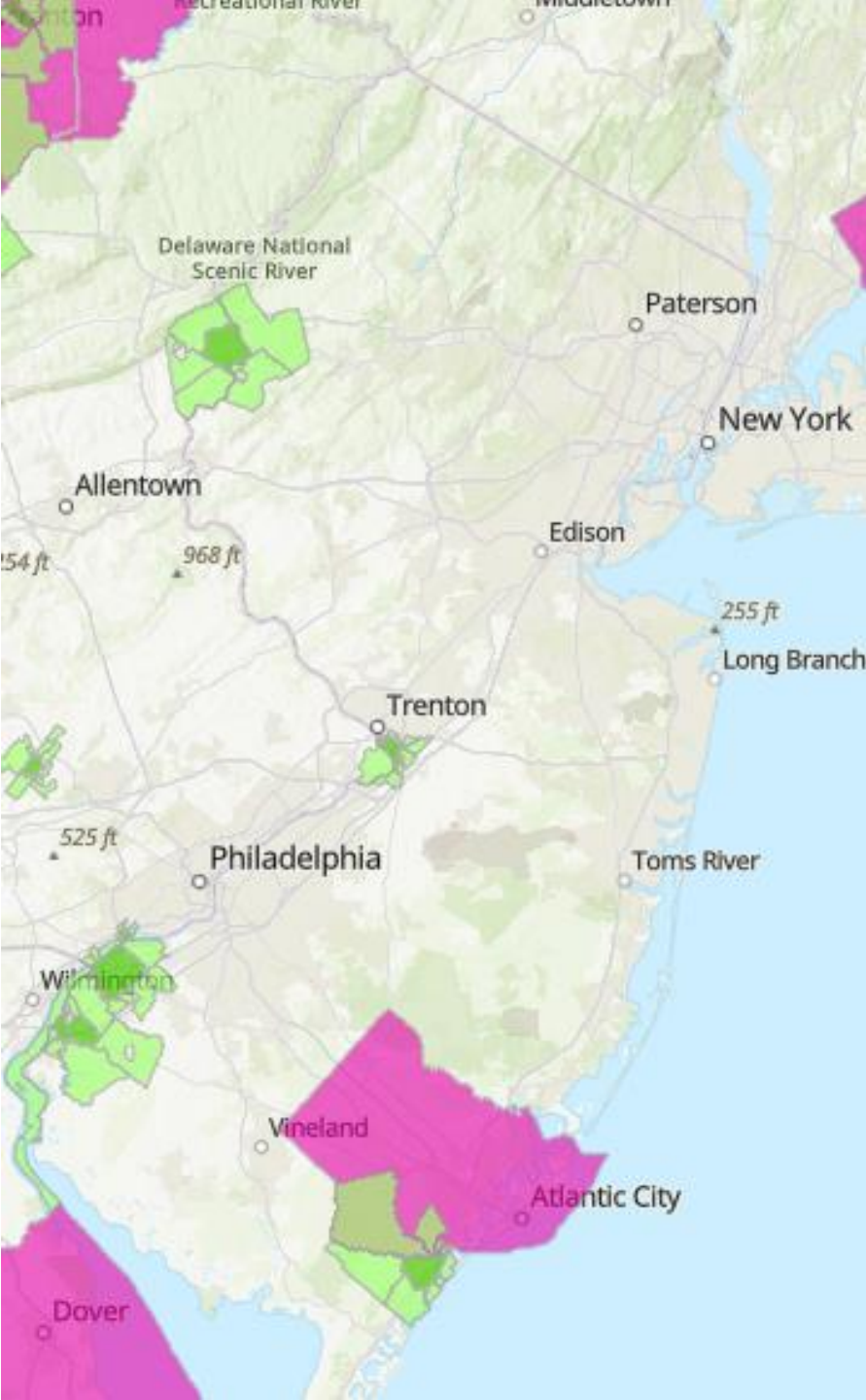
# Direct Pay Adders - Prevailing Wage and Apprenticeship (PWA)

- ❑ Prevailing wage requirements –  
Similar to Davis Bacon requirements with additional rules around apprenticeships
- ❑ No adder, penalty if not compliant



# Direct Pay Adders - Energy Communities Bonus

- ❑ Only available for Investment Tax Credit and Production Tax Credit eligible projects (no EVs/EVSE)
- ❑ Adder +10%
- ❑ Brownfields may be eligible and NOT shown on the map.



## 2024 Coal Closure Energy Communities

### Tract Status



Census tract with a coal closure



Directly adjoins a tract with coal closure

## 2024 MSAs/non-MSAs that are Energy Communities



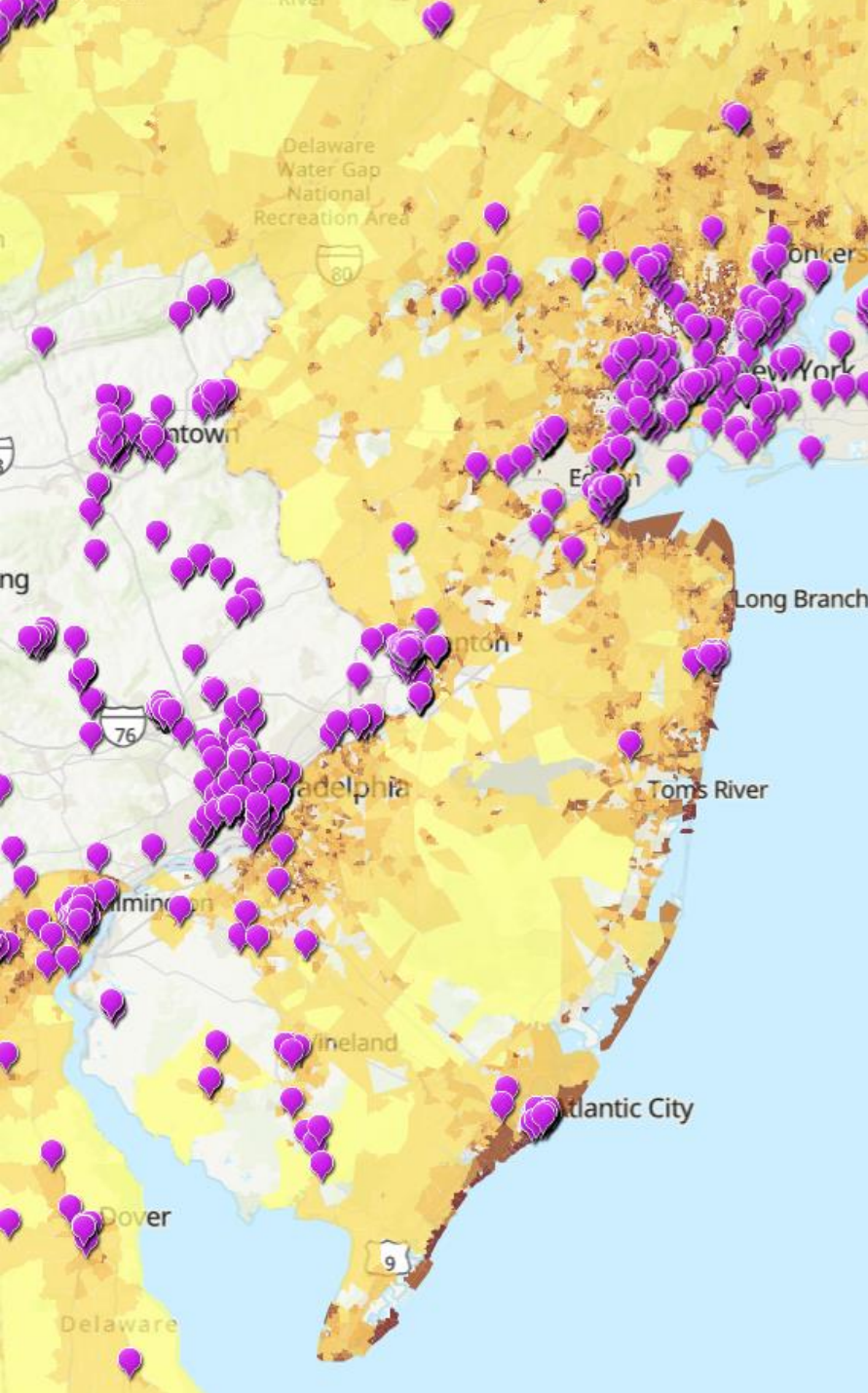
MSAs/non-MSAs that meet both the Fossil Fuel Employment (FFE) threshold and the unemployment rate requirement and are an energy community as of June 7 2024

At right: Screenshot of U.S. DOE map of energy communities in New Jersey.

<https://arcgis.netl.doe.gov/portal/apps/experiencebuilder/experience/?id=a2ce47d4721a477a8701bd0e08495e1d>

# Direct Pay Adders - Energy Communities Bonus

## NJ Brownfield Map



Brownfields Properties (ACRES)

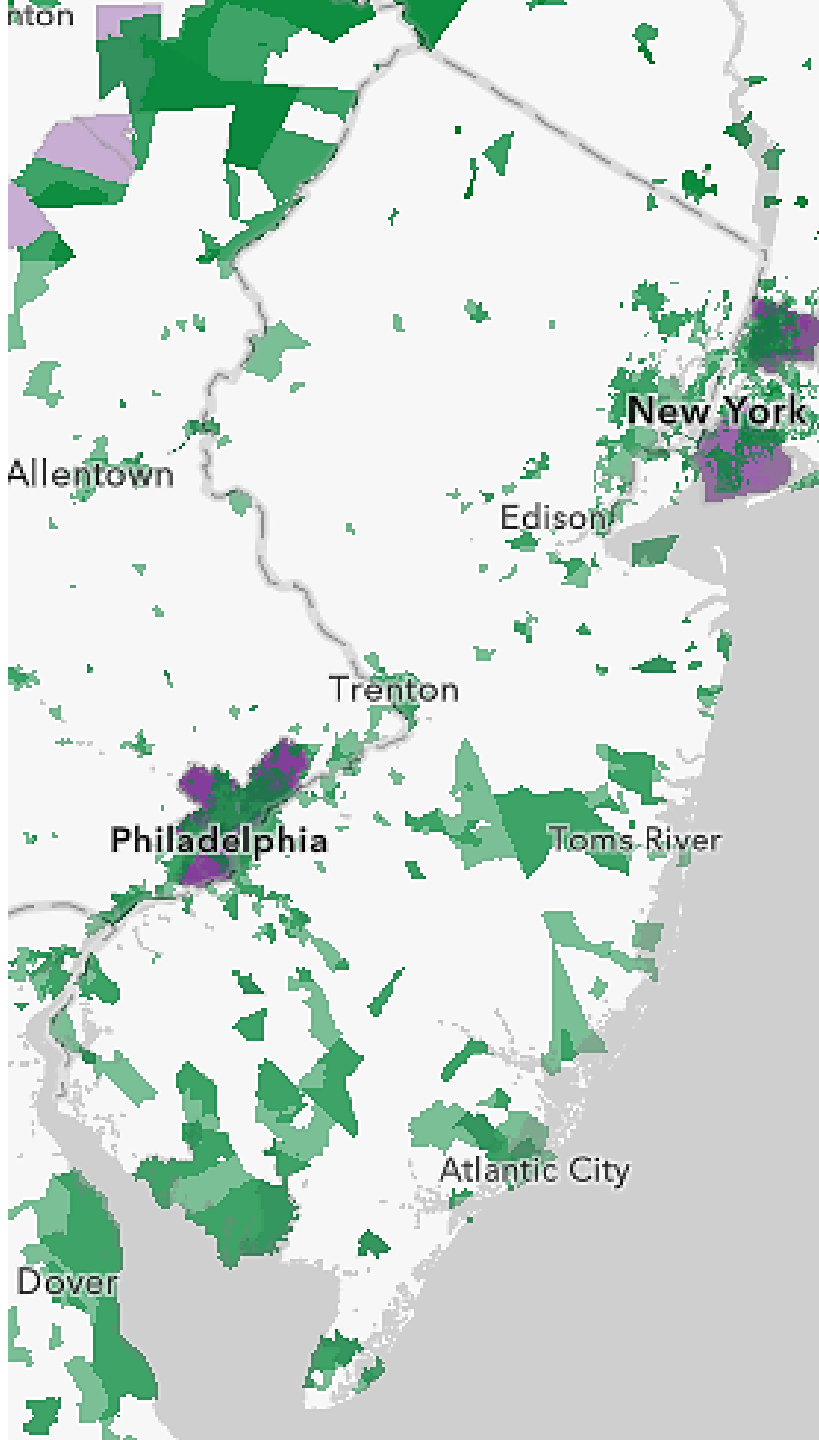
Areas in shades of Brown: Housing Density(Unit per acre, Census block group)

At right: Screenshot of U.S. DOE map of energy communities in New Jersey.

<https://enviroatlas.epa.gov/enviroatlas/interactivemap/?featuredcollection=e5f95175f9184d508be636377796f1c2>

# Direct Pay Adders - Low Income Communities Bonus Credit Program (LICB)

- ❑ Only for Investment Tax Credit eligible projects
- ❑ +10-20%, requires application
- ❑ Only adder with limited funding, apply as soon as the project is confirmed



## Category 1 Eligibility

### Tract Status



Census tracts that meet the New Market Tax Credit Program's threshold for Low Income

## Additional Selection Criteria | Graphis Option 1 | CEJST Energy

### Tract Status



Census tracts that meet the Climate Economic Justice Screening Tool's threshold for disadvantage in the Energy Burden category

## Additional Selection Criteria | Graphis Option 2 | Persistent Poverty County

### County Status



Counties that meet the USDA's threshold for Persistent Poverty

At right: Screenshot of U.S. DOE map of LICB eligibility in New Jersey.

<https://experience.arcgis.com/experience/12227d891a4d471497ac13f60fffd822>





# Planning Projects with Direct Pay in Mind



# Planning for Direct Pay

- Direct Pay will be available for at least ten years
- Entities typically must be sole owner of project
- Plan with Direct Pay in mind, consider rethinking:
  - Solar/renewables – Power Purchase Agreements (PPAs) and other leasing models
  - EVs – vehicle leasing
  - EV Charging – site forbearance, partnerships
- Using Tax-Exempt Bonds will cause a 15% reduction in tax credit



Oradell EV  
charging station



Runnemede EV  
charging station



# Using Direct Pay with Other Incentives

Direct Pay can be used in combination with other funding sources as long as total incentive does not exceed total project cost.

## Example

Lightweight EV	\$24,000
NJ BPU Clean Fleet Grant	-\$4,000
Direct Pay Tax Credit	-\$7,500
<hr/>	
<b>Total cost to entity</b>	<b>\$12,500</b>

**Sustainable Jersey Energy Technical Assistance can help identify funding to use in combination with Direct Pay.**

To request a technical assistance consultation, paste the following link to your browser and access the signup form

[bit.ly/SJEnergyTARequestForm](https://bit.ly/SJEnergyTARequestForm)



# Filing for Direct Pay



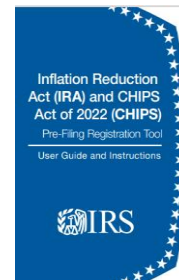


# Filing for Direct Pay

- Entitles need to pre-register to get IDs for each project, e.g. 10 EVs = 10 ID numbers
- It may take more than a month after registration to receive project IDs
- File tax forms with IRS by deadline for the year the project was completed in

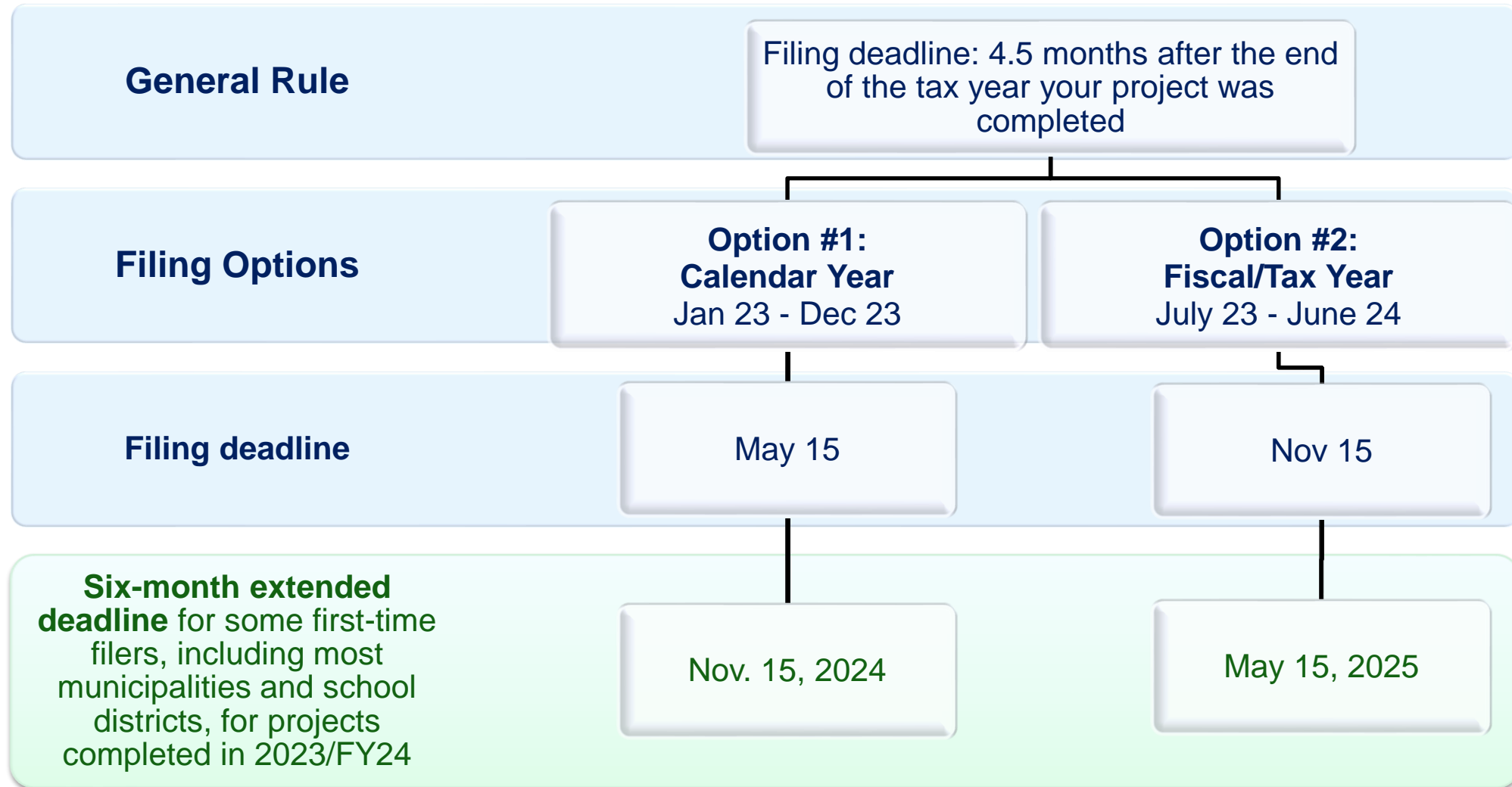


Register for elective pay at  
<https://www.irs.gov/credits-deductions/register-for-elective-payment-or-transfer-of-credits>



**IRA and CHIPS  
Pre-Filing  
Registration  
Tool User Guide  
and Instructions**

# Direct Pay: Filing Deadlines









# Direct Pay Resources

# For Pre-filing Questions and Assistance

- Office hours of IRS
- New Office hours every month

Date	Time	Registration link
8/14/2024	1-2:30 p.m. EDT	<a href="#">Register</a> 
9/4/2024	1-2:30 p.m. EDT	<a href="#">Register</a> 
9/18/2024	1-2:30 p.m. EDT	<a href="#">Register</a> 
10/2/2024	1-2:30 p.m. EDT	<a href="#">Register</a> 

**Source:** <https://www.irs.gov/newsroom/irs-encourages-organizations-planning-to-claim-elective-pay-to-complete-pre-filing-registration-now-for-2023-tax-year>



**IRS's Direct Pay email ID:** `irs.elective.payment.or.transfer.of.credit@irs.gov`





# Direct Pay Resources

IRS

## ***Elective pay and transferability***

<https://www.irs.gov/credits-deductions/elective-pay-and-transferability>

Clean Energy  
Group

## ***What Nonprofits Need to Know When Applying for Direct Pay***

[www.cleangroup.org/wp-content/uploads/Direct-Pay-Guide.pdf](http://www.cleangroup.org/wp-content/uploads/Direct-Pay-Guide.pdf)

Environmental  
and Energy  
Study Institute

## ***Direct Pay: Nonprofits Can Now Benefit from Clean Energy Tax Credits***

[www.eesi.org/articles/view/direct-pay-nonprofits-can-now-benefit-from-clean-energy-tax-credits](http://www.eesi.org/articles/view/direct-pay-nonprofits-can-now-benefit-from-clean-energy-tax-credits)

Lawyers for  
Good  
Government

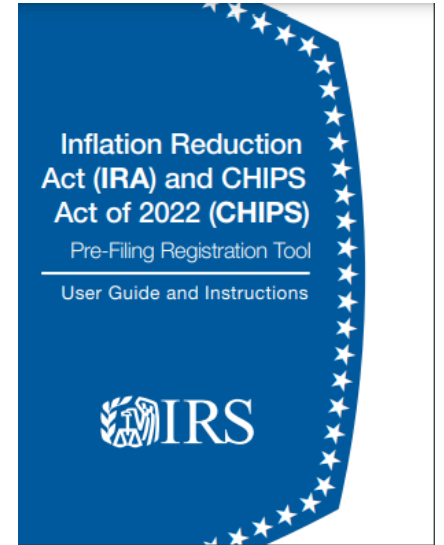
## ***Clean Energy Tax Navigator tool***

<https://cleanenergytaxnavigator.org/>

U.S. Department  
of Energy

## ***Elective Pay for Clean Energy Tax Credits***

[https://www.energy.gov/sites/default/files/2024-08/Elective\\_Pay\\_Fact\\_Sheet\\_Territories\\_073124.pdf](https://www.energy.gov/sites/default/files/2024-08/Elective_Pay_Fact_Sheet_Territories_073124.pdf)



**Visit  
Sustainable  
Jersey's  
Direct Pay  
webpage  
for a full listing of  
resources.**



# Upcoming Sustainable Jersey Events

10/03/24: Preparing a Competitive EPA Brownfield Grant Application Webinar

10/23/24: Preventing Lead Exposure in your NJ Community: Bright Futures Begin Lead Free Webinar

11/12/24: Sustainable Jersey for Schools: Ready, Set, Certified

11/19/24: 2024 Sustainable Jersey Annual Luncheon

12/03/24: New Climate Vulnerability Assessment Action and Technical Assistance Webinar

12/12/24: Sustainable Jersey for Schools: Countdown to Certification

Coming Soon! Complete Streets Technical Assistance for South Jersey

For more information visit [www.sustainablejersey.com](http://www.sustainablejersey.com)



# Thank You

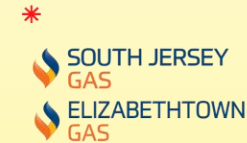
Tracey Woods - woodst@tcnj.edu

# Sustainable Jersey for Schools Underwriters and Sponsors

## Program Underwriters



## Corporate Sponsors



\*Digital Schools Underwriters and Sponsors



# Sustainable Jersey Underwriters and Sponsors

## Program Underwriters



## Corporate Sponsors

