

Introduction to Elective Pay (Direct Pay)

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Disclaimer

The State of Michigan does not provide tax advice. The MIO TAC, however, is currently accepting applications from eligible entities who can receive free accounting services provided by an accounting firm to help with Elective Pay. Apply [here](#) by January 24, 2025.

This presentation provides an overview of certain Inflation Reduction Act tax provisions for general informational purposes only and this presentation and the information contained in it is not tax guidance.

The content in this presentation is based on tax guidance on IRS.gov, information produced by third-party experts, and other publicly-available information.

This presentation relies on simplifications and generalizations to convey high-level points about Inflation Reduction Act tax provisions. Please refer to guidance issued by the IRS and from your professional tax advisor for detailed information on the rules associated with any tax provisions.

About MIO TAC

The Michigan Infrastructure Office's (MIO) **Technical Assistance Center (TAC)** has 4 key support services:

1. Grant identification
2. Grant writing
3. Providing matching funds
4. Support for Elective Pay entities

Visit our new Elective Pay website **[here](#)**.





Elective Pay

Elective pay (often referred to as Direct Pay) is a new mechanism that allows tax-exempt entities to take advantage of federal clean energy tax credits. Examples of eligible entities that can now receive payment for a portion of their clean energy investments include:

- Local governments
- Tribal governments
- Non-profits
- School districts
- Houses of worship
- Rural electric co-operatives

In line with its mission, the Michigan Infrastructure Office Technical Assistance Center is committed to providing technical assistance and educational resources for Elective Pay- eligible entities to help draw federal infrastructure money to Michigan's communities.

Elective Pay (Direct Pay) Overview

- New mechanism for **tax-exempt entities** investing in **clean energy**
- Allows entities with no federal tax liability to **make use of federal tax credits for the first time**
- Result: **a check from the IRS** after filing a tax return
- Can **combine** with unrestricted grants, loans, and other types of funding
- Depending on the type of project & tax credit claimed, **valued at large % of project costs**
- **Uncapped** & generally **not competitive**
- Not a grant, but a **reimbursement** (not up-front capital)

*"The [solar] project was \$59,000, and **we are looking at getting 30-40% back through the tax credits.** Given that, it wasn't a hard decision. Our vestry was really supportive. **Applying for the direct pay was not difficult through the IRS website.**"*

- **Wendy Hedeem, Vestry Warden,
St. Philip's Episcopal Church,
Beulah, MI**



Elective Pay Eligible **Entities**



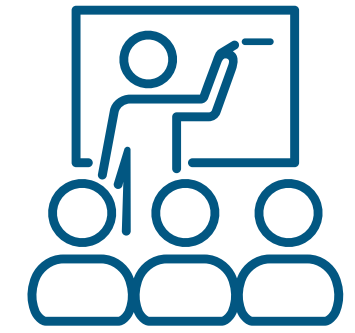
State governments
(the State of Michigan
has filed for Elective
Pay!)



**Local and Tribal
governments**



**Agencies & instrumentalities of
these governments** (public school
districts, transportation
authorities, etc.)



**Community
colleges & public
universities**



**Non-profit
organizations**



**Rural electric
cooperatives**



Houses of worship

Any organization described in sections 501 through 530 that meets the requirements to be recognized as exempt from tax under those sections (including, among others, all organizations described in section 501(c)).

See IRS FAQ on eligibility [here](#)



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Elective Pay Eligible Tax Credits

Not all federal tax credits can be used with Elective Pay. Those that can are:

1. Energy Credit (48)
2. Clean Electricity Investment Credit (48E)
3. Renewable Energy Production Credit (45)
4. Clean Electricity Production Credit (45Y)
5. Commercial Clean Vehicle Credit (45W)
6. Zero-emission Nuclear Power Production Credit (45U)
7. Advanced Manufacturing Production Credit (45X)
8. Clean Hydrogen Production Credit (45V)
9. Clean Fuel Production Credit (45Z)
10. Carbon Oxide Sequestration Credit (45Q)
11. Credit for Alternative Fuel Vehicle Refueling / Recharging Property (30C)
12. Qualifying Advanced Energy Project Credit (48C)

Find more details on these tax credits [here](#)

Top Tax Credits

These 3 tax credits are the most popular credits for Elective Pay eligible entities.



Commercial Clean Vehicle Credit (45W)

- Applies to electric, plug-in hybrid, and fuel cell electric vehicles
- Value: One-time payment of **up to \$7,500 or \$40,000**



Renewable Energy Investment Tax Credit ("ITC") (48)

- Replaced by Clean Electricity Investment Credit (48E) in 2025
- Value: **6% - 70%** of total project cost
- Used for e.g., solar, geothermal
- One time payment (vs. PTC paid over time)



EV Charging Infrastructure Tax Credit (30C)

- Value: **6% or 30%** of total project cost, up to \$100,000 per charger
- One time payment
- Rural and low-income areas only - check [map](#) for eligibility

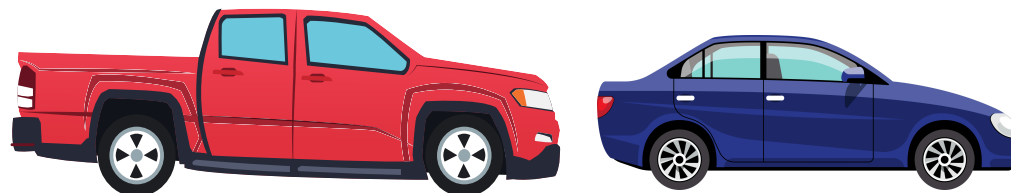


Calculating Your EV Credit

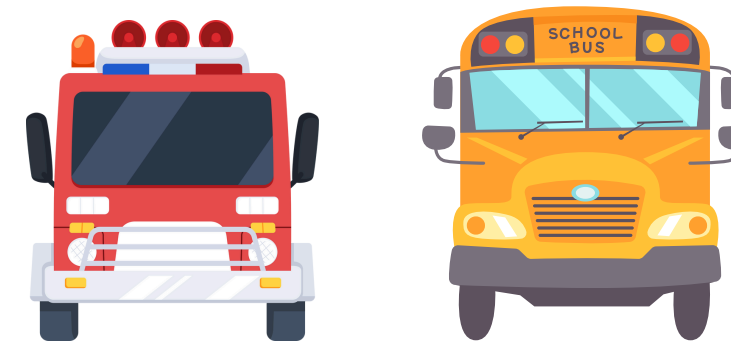
Follow steps [here](#) to calculate credit, which equals the lesser of:

- **15% of the purchase price** for a **plug-in hybrid** vehicle **or 30% for fully electric** or **fuel cell** vehicles
- **The incremental cost of the vehicle**, which depends on the year the vehicle is placed in service. Refer to [Notice 2024-5\(PDF\)](#) for the incremental cost for qualified vehicles placed in service in calendar year 2024

**Passenger-sized
vehicles (e.g., cars,
vans, pick up trucks):
max credit is \$7,500**



**Large vehicles (e.g.,
electric school buses,
electric fire trucks):
max credit is \$40,000**



Use [this](#) list as a helpful guide to certain models.

Calculating Your EV Credit

Know Before You Go!

1. Check with dealer/manufacturer

- The **dealer must confirm that your specific vehicle qualifies. Get this in writing!** (accepted seller report/time-of-sale report)
- **Credit amount can be taken off purchase price at the time of purchase.** If that didn't happen, you need to claim on your tax return.

2. There is **no limit on the number of vehicles** - can claim the credit for 1 vehicle or 100 vehicles in a tax year.

3. **Leased vehicles can qualify too!** The latest IRS guidance describes conditions when a lease is actually treated as a sale for tax purposes, and eligible entities can then access these credits. See [this](#) note from Lawyers for Good Government describing those conditions and **talk with your fleet operator.**

See IRS FAQ [here](#)

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EV Charging Infrastructure Tax Credit (30C)

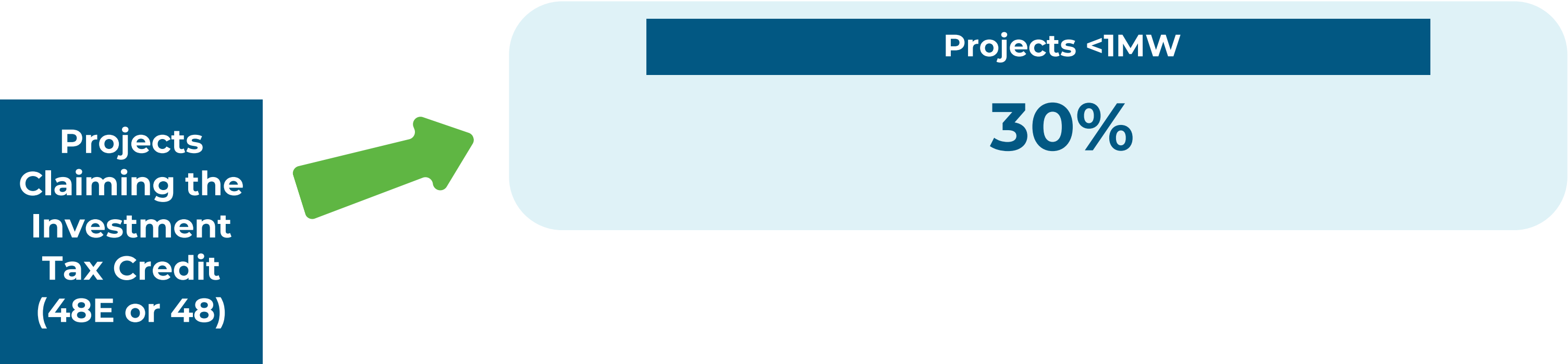
- Value: **6% or 30%** of total project cost, up to \$100,000 per charger
- One time payment
- Rural and low-income areas only - check [map](#) for eligibility



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Calculating Your Base Credit

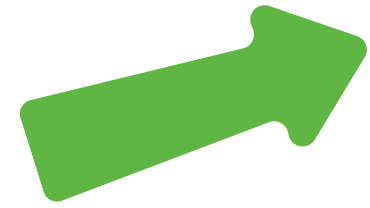
Investment tax credits are valued at a percentage of a project's total cost



Calculating Your Base Credit

Impact of Prevailing Wage & Apprenticeship (PWA) Rules

Projects
Claiming the
Investment
Tax Credit
(48E or 48)



Projects <1MW

30%

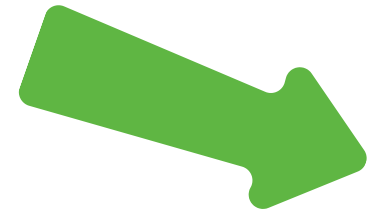
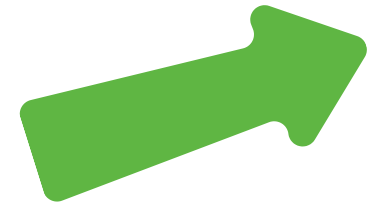
no change

Projects smaller than 1 MW are **exempt** from PWA rules

Calculating Your Base Credit

Impact of Prevailing Wage & Apprenticeship (PWA) Rules

Projects
Claiming the
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Projects <1MW

30%

no change

Projects smaller than 1 MW are **exempt** from PWA rules

Projects \geq 1 MW

6% or 30%

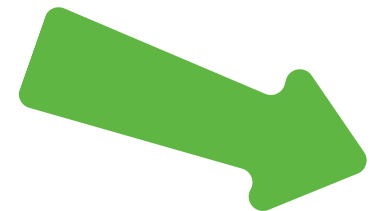
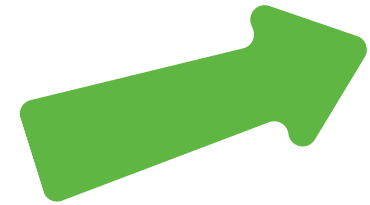
5x!

Projects 1 MW or greater **must comply** with PWA rules to receive the 30% credit, otherwise will receive a 6% credit.

Calculating Your Base Credit

Impact of Prevailing Wage & Apprenticeship (PWA) Rules

Projects
Claiming the
Investment
Tax Credit
(48E or 48)



Projects <1MW

30%

no change

Projects smaller than 1 MW are **exempt** from PWA rules

Projects \geq 1 MW

6% or 30%

5x!

Projects 1 MW or greater **must comply** with PWA rules to receive the 30 % credit, otherwise will receive a 6% credit.

Projects
Claiming the
Charging
Infrastructure
Credit
(30C)



Any charger installation

6% or 30%

5x!

All EV charger installations **must comply** with PWA rules to receive the 30% credit, otherwise will receive a 6% credit.

Prevailing Wage & Apprenticeship Requirements

- 4 components →
- Applies to ITC, PTC, EV charging credit, among others
- Documentation is important!
- Exceptions:
 - ITC & PTC projects <1MW
 - Good Faith Effort Exception - written request & no response or request denied
- See more details [here](#)



01

Pay

Must meet prevailing wage specific to the location of the project

02

Labor Hours

Min. 15% of hours worked must be by apprentices from certified programs

03

Apprentices Ratio

Must meet applicable ratio of apprentices to journeymen established by the registered apprenticeship program

04

Participation

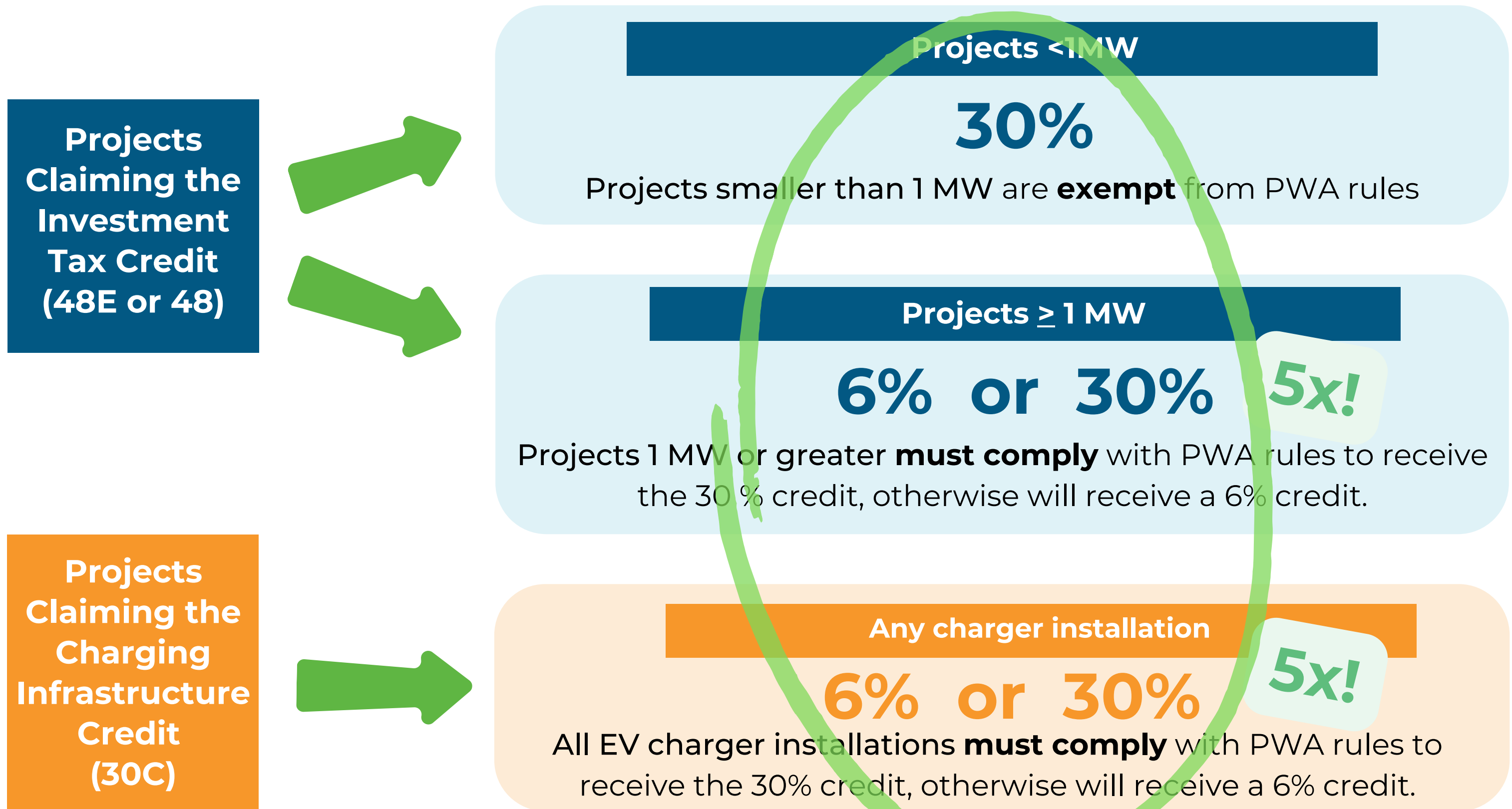
Any taxpayer, contractor, or sub-contractors with 4+ employees must hire at least 1 apprentice



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Calculating Your Base Credit

Impact of Prevailing Wage & Apprenticeship (PWA) Rules



Calculating Your Credit - Bonuses & Penalties



- **Bonus #1: Project is located in an Energy Community** (locations with former fossil fuel infrastructure; brownfield locations)
**+ 2 percentage points on top of 6% ITC base, or
+10 percentage points on top of 30% ITC base**
➡ Check the map [here](#) for eligibility




LEGEND

2024 Coal Closure Energy Communities





Tract Status

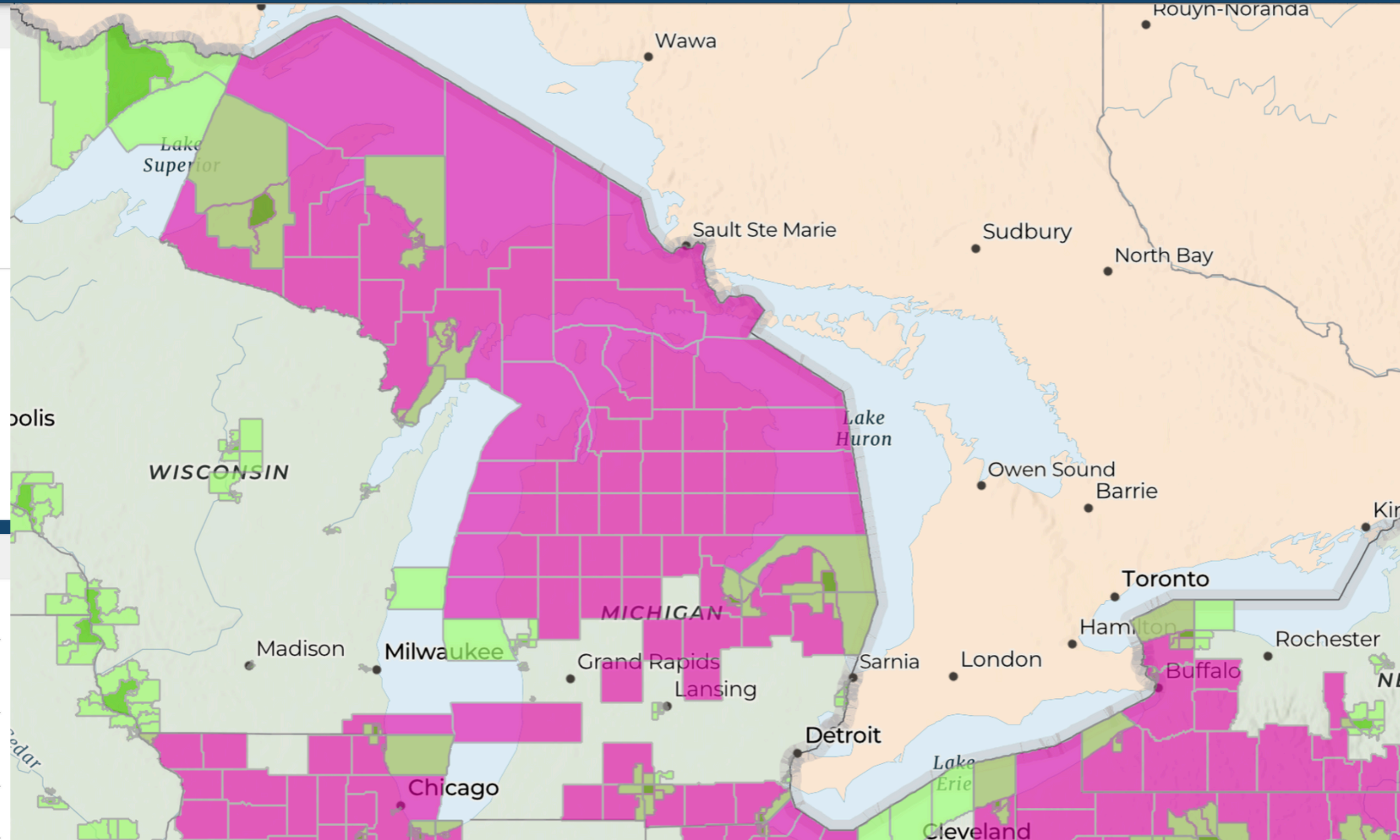
-  Census tract with a coal closure
-  Directly adjoins a tract with a coal closure

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

MAP LAYERS

-  2024 Coal Closure Energy Communities ...
-  2024 MSAs/non-MSAs that are Energy Communities ...
-  2024 MSAs/non-MSAs that only meet the FFE Threshold ...
-  2023 Energy Communities ...



Disclaimer

[Energy Data eXchange](#)
National Energy Technology Laboratory
U.S. Department of Energy.

Calculating Your Credit - Bonuses & Penalties

- **Bonus #1: Project is located in an Energy Community** (locations with former fossil fuel infrastructure; brownfield locations)
**+ 2 percentage points on top of 6% ITC base, or
+10 percentage points on top of 30% ITC base**

➡ Check the map [here](#) for eligibility

- **Bonus #2: Solar or wind project (<5MW) in low income & Tribal communities**

+10 or 20 percentage points (ITC)

➡ Check the DOE website [here](#) for eligibility
Important: Requires application to DOE & allotment (competitive & capped)



Calculating Your Credit - Bonuses & Penalties

Domestic Content - a bonus AND a penalty

Bonus: Project was built with certain % of steel, iron, or manufactured products that were mined, produced or manufactured in the U.S.

- Steel: 100%
- Iron: 100%
- Manufactured Products:
 - 40% (eventually 55%)
 - Offshore wind: 20%

+2 percentage points on top of 6%

ITC base, or

+10 percentage points on top of 30% ITC base

More details [here](#)

Penalty: Increasingly reduces the amount of the tax credit value if domestic content requirements aren't met.

Reduced to 90% of credit amount in 2024, 85% in 2025, and 0% in 2026 and beyond.

More details [here](#)

Exceptions:*

- Projects < 1MW
- Using domestic content increases the overall costs of construction by >25%, or
- Goods not produced in the United States in sufficient and reasonably available quantities or of a satisfactory quality.

**Can make an attestation for Increased Cost Exception and the Non-Availability Exception for projects beginning construction before 1/1/2027*

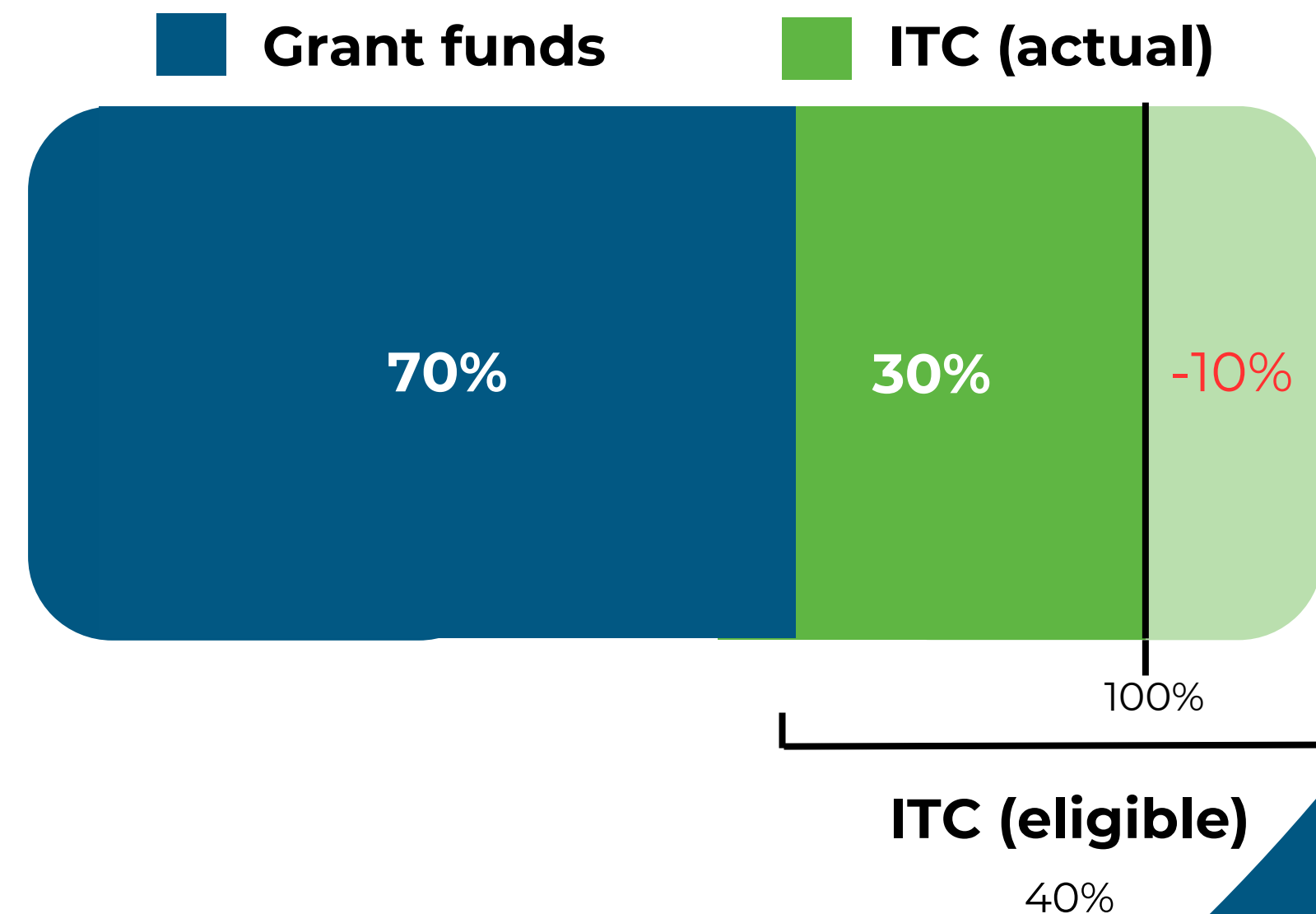


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Braiding Funds - Grants

No Excess Benefit Rule: Grant funds + tax credits cannot exceed 100% of project costs. Tax credit value will be reduced to ensure this is the case.

Example: If a project receives a grant covering 70% of project costs, the project may be eligible for a 40% Investment Tax Credit, but the **actual credit received** would be reduced to 30% so as not to exceed 100% of project costs.



Braiding Funds - Grants

Pro tip: Maximize your tax credit value for an Elective Pay-eligible project, minimize the grant dollars required, and stretch the grant dollars farther for additional projects.

Example:

- A community center is installing rooftop solar. It is less than 1MW in size & costs \$50,000.
- The community center received a general grant of \$45,000 for energy upgrades to the building.
- The project is eligible for a 40% tax credit (30% base + 10% for being located in an energy community) totaling \$20,000.

Scenario 1: Prioritize Grant Spend

Project Cost:	\$50,000
Grant:	- <u>\$45,000</u>
	\$5,000

File for tax credit to cover remaining \$5,000 (will not receive full \$20,000).
\$0 paid out of pocket, but not maximizing available budget.

Scenario 2: Prioritize Tax Credit

Project Cost:	\$50,000
Tax Credit Value:	- <u>\$20,000</u>
Use grant for remaining	\$30,000

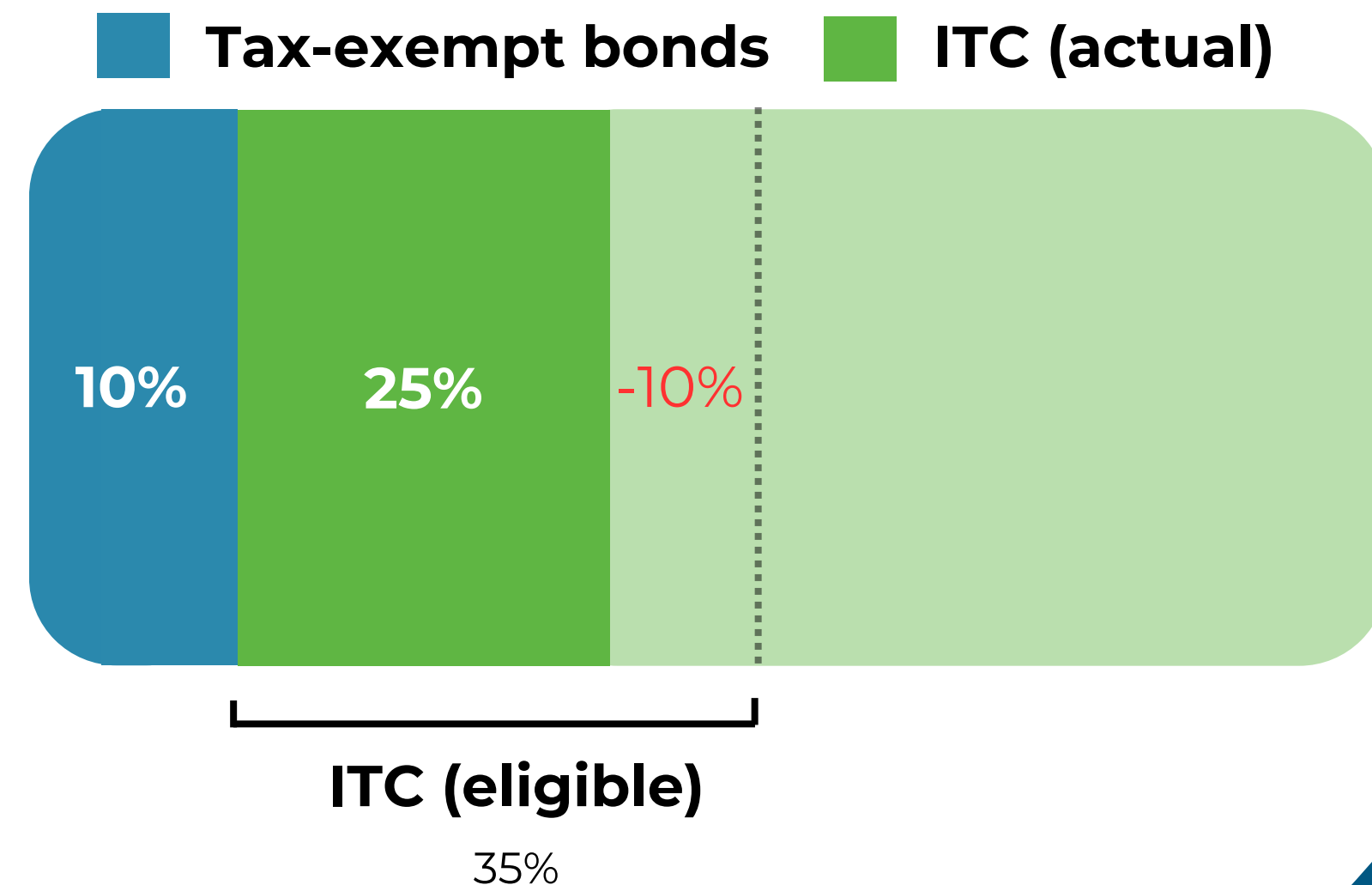
Left with \$15,000 in grant funds for upgrades not covered by tax credits (e.g., energy efficiency).

Braiding Funds - Tax-Exempt Bonds

Tax-Exempt Bonds Restrictions - Using tax-exempt bonds to finance a project triggers a reduction in the value of the tax credit.

Reduction equal to % of project financed with tax-exempt bonds, up to **15% maximum**.

Example: Project uses a tax exempt bond to cover 10% of project costs. The project is eligible for a 35% ITC. The credit is reduced by the portion of the project financed with tax-exempt bonds (10%), resulting in a 25% credit.

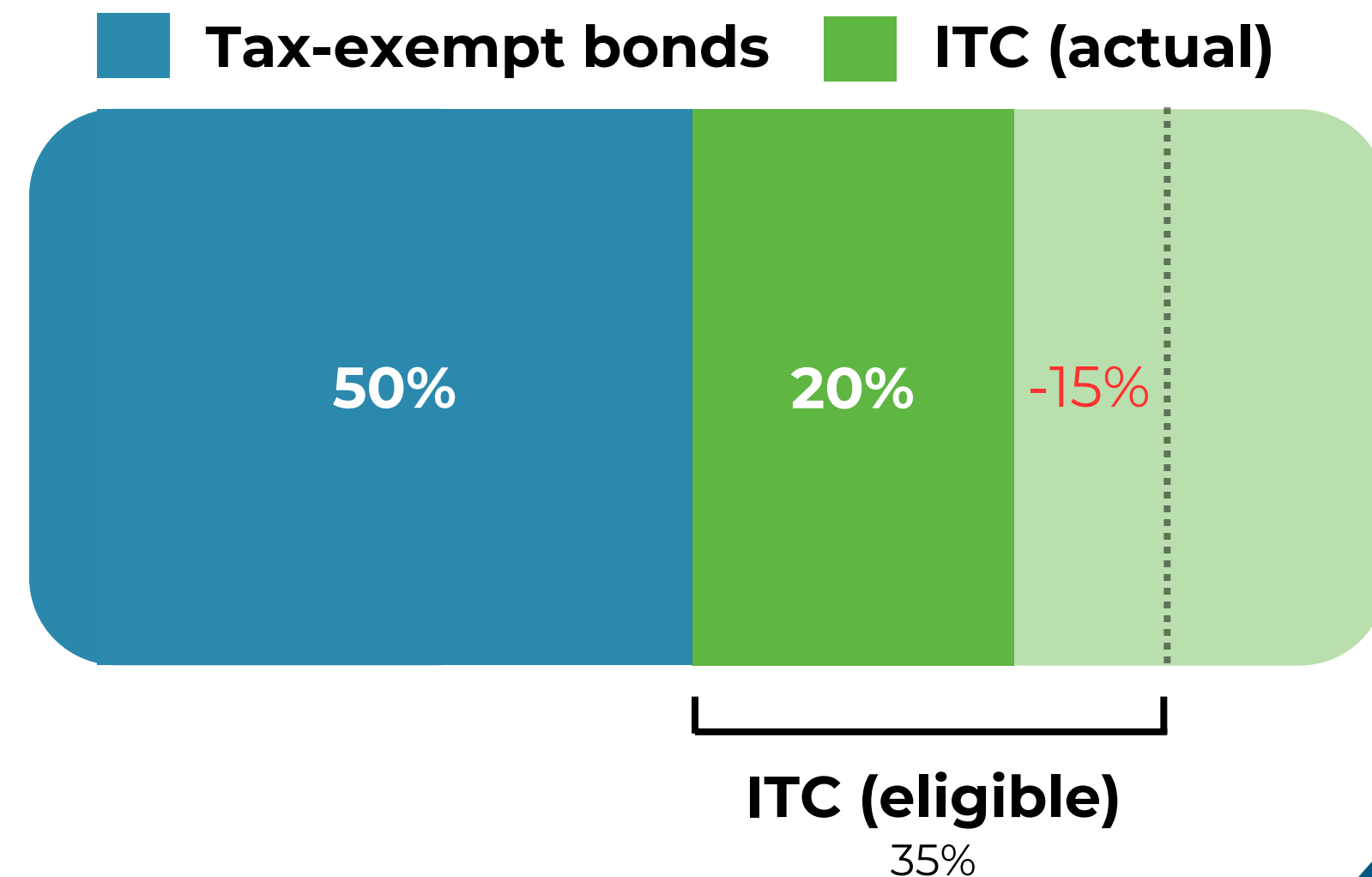


Braiding Funds - Tax-Exempt Bonds

Tax-Exempt Bonds Restrictions - Using tax-exempt bonds to finance a project triggers a reduction in the value of the tax credit.

Reduction equal to % of project financed with tax-exempt bonds, up to **15% maximum**.

Example: Project uses a tax exempt bond to cover 50% of project costs. The project is eligible for a 35% ITC, but the credit is reduced by the maximum reduction of 15%, resulting in a 20% credit.



Elective Pay Examples

Example #1 - Investment Tax Credit (ITC) for project $\leq 1\text{MW}$

A church decides to explore clean energy options for its property.

After assessing options, the church chooses solar energy as its best option. The project will be $\leq 1\text{MW}$.



ELIGIBLE ENTITY



QUALIFYING CLEAN
ENERGY PROJECT



**Investment Tax
Credit base value:
30% of project cost**

**Projects under 1MW do not need to meet the
Prevailing Wage and Apprenticeship
requirements to receive the 30% ITC**



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Elective Pay Examples

Example #2 - Investment Tax Credit (ITC) for project $\geq 1\text{MW}$

A large community college decides to explore clean energy options for its campus.

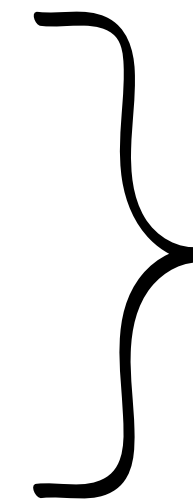
After conducting an energy assessment, the college chooses geothermal as its best option. The project will install geothermal across a large campus, so the project will total $> 1\text{MW}$.



ELIGIBLE ENTITY



QUALIFYING CLEAN
ENERGY PROJECT



**Investment Tax
Credit base value:
6% of project cost**



Elective Pay Examples

Example #2 - Investment Tax Credit (ITC) for project $\geq 1\text{MW}$

A large community college decides to explore clean energy options for its campus.

After conducting an energy assessment, the college chooses geothermal as its best option. The project will install geothermal across a large campus, so the project will total $\geq 1\text{MW}$.

After issuing an RFP, the college selects an installer that meets prevailing wage & apprenticeship requirements.



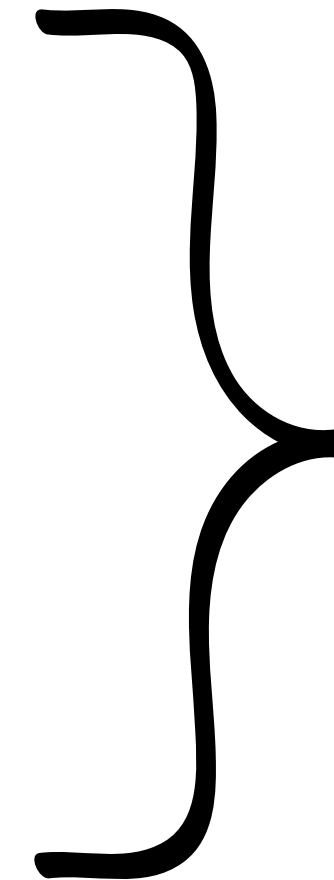
ELIGIBLE ENTITY



QUALIFYING CLEAN ENERGY PROJECT



MEETS PWA REQUIREMENTS



Meeting PWA requirements increases 6% Investment Tax Credit by 5x



30% of project cost

Remember the bonus credits that are available!



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Elective Pay Process

Elective Pay for Completed Projects

Step 7

Receive a check from the IRS (~45 days after filing).



Step 6

File tax return & make the Elective Pay selection



Step 5

Within 60-120 days, receive project ID number(s).



Step 4

Pre-register the project(s) with the IRS through its online portal 120 days before filing your return.



Step 3

Gather project data, Employer Identification Number, etc. & determine tax year. Ensure compliance with all relevant tax credit requirements, including appropriate documentation.



Step 2

Identify the project(s) & the relevant tax credit(s) and bonus credit(s).



Step 1

Place the project in service.



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Elective Pay Process - Current Projects

Do you have projects underway that will be placed in service soon? Do they qualify for one of the 12 Elective Pay tax credits? Do they comply with the necessary requirements?

You have time to find answers to these questions, but don't wait until it's time to file your return.

A few steps to get you started...

- ✓ Gather project/vehicle data as it becomes available.
- ✓ Talk with installers, contractors, and other project parties *as early as possible*.
- ✓ Collect **documentation** of project ownership, PWA compliance, etc.
- ✓ Determine your tax year & familiarize yourself with relevant filing deadlines.
 - General rule: The **deadline to file** your return is the **15th day of 5th month after your tax year ends** (+6 months if using extension).
 - **Pre-register** projects **120 days before filing deadline** (IRS recommendation)
- ✓ Check out our **Elective Pay To-Do List**

Elective Pay Process - Future Projects

For projects still in development, consider Elective Pay early on in project planning. Follow these best practices in order to maximize your reimbursement.

- ▶ **Examine energy needs & the relevant tax credit(s) and bonus credit(s).** Consider these in budget decisions & project planning.
- ▶ **Assess your funding sources.** Maximize use of the tax credits first, then fill in with other sources of funds such as grants, so those can spread farther.
- ▶ **In RFPs, include requirements that contractor/installer use e.g., PWA-compliant labor and domestic content-compliant equipment.** Include requirements that contractor/installer establish a plan to furnish required documentation for demonstrating compliance.
New! Check out template RFP language from Lawyers for Good Government [here](#).
- ▶ **Before making fleet purchases, check vehicle eligibility and tax credit amount,** then compare price of eligible vehicles after tax credit amount is deducted.
- ▶ **Look for other organizations who have successfully used Elective Pay,** talk to them about their experience, and ask about lessons learned.

MIO TAC Elective Pay Resources

[MIO TAC Elective Pay Website](#)

- Fact Sheets
- External resources
- Testimonials
- Webinars
- Latest updates on Elective Pay guidance from the IRS
- FAQ

[Apply for free accounting services now!](#) Due January 24

[MIO TAC Elective Pay Office Hours](#) - Ask all your questions, with guest experts

- Office Hours recordings & upcoming dates listed on the Elective Pay website
- Next Office Hours: January 14 with Lawyers for Good Government. Register [here](#)

[MIO TAC Elective Pay email newsletters](#) - Sign up [here](#)

Still to come:

Michigan success stories, peer learning opportunities,
and...what else?

Tell us what would be helpful to your community!

Q&A

Thank you for joining us!

Contact us

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Director of the TAC
BradyK4@michigan.gov

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