



# Direct Pay Overview

Executive Office for Administration and Finance

Federal Funds and Infrastructure Office

Governor's Office of Climate Innovation and Resilience

# Agenda

- What is Direct Pay?
- Applicable credits for Direct Pay
- Credit Amounts and Bonuses
- Process Timeline
- Helpful Resources

# Disclaimer

- The information provided in this presentation does not, and is not intended, to constitute legal or tax accounting advice. Instead, all information is for general informational purposes only.
- This presentation provides a high-level overview of complex tax matters. Please consult an attorney for legal assistance with your specific matter.

# What is Direct Pay?

---

- The Inflation Reduction Act (IRA) makes the largest investment in clean energy in United States history, and much of that investment is delivered via tax incentives.
- Under the IRA, tax-exempt and governmental entities – such as cities and towns -- that do not owe Federal income taxes are, for the first time, able to receive a payment equal to the full value of tax credits for building qualifying clean energy projects or making qualifying investments. This is called Direct Pay (also known as Elective Pay).
- By filing a return and using Direct Pay, these entities can receive a cash refund from the IRS for certain clean energy projects.
- Direct pay applies to projects put into service January 1, 2023 through December 31, 2032, creating a decade of tax opportunity to save money on necessary infrastructure replacements and upgrades while reducing energy costs and carbon emissions.
- **Unlike competitive grant programs, the overall potential of these tax credits to states and municipalities is unlimited.** In most cases, the Investment Tax Credit results in a refund equal to 30% of the project investment.

# The Commonwealth's Approach:

---

1. Understand and execute the Commonwealth of Massachusetts filing process for 2023



2. Provide actionable guidance and resources to cities, towns, and tax-exempt orgs (TEOs)



3. Build strategy for maximizing impact and usage of tax credits for the state/TEOs



4. Provide bridge lending/financing mechanisms for capital projects for TEOS





# Most relevant tax credits for municipalities

---

**Example Projects:**

EV Infrastructure  
Placement in  
non-urban or low  
income areas



Section 30C  
Alternative fuel  
refueling property

Section 45  
Renewable  
electricity production  
tax credit (PTC)



**Example Projects:**

- Microgrid/  
Community Solar
- Storage deployed at  
distribution level
- Port electrification
- Rooftop Solar or  
Wind on gov.  
buildings or  
affordable housing
- Geothermal HVAC

**Example Projects:**

EV Fleet Transition

- Gov. vehicles, school  
buses, public transit, etc.
- Stacking available with  
EPA funding



Section 45W  
Qualified  
commercial vehicles

Section 48  
Energy investment  
tax credit (ITC)



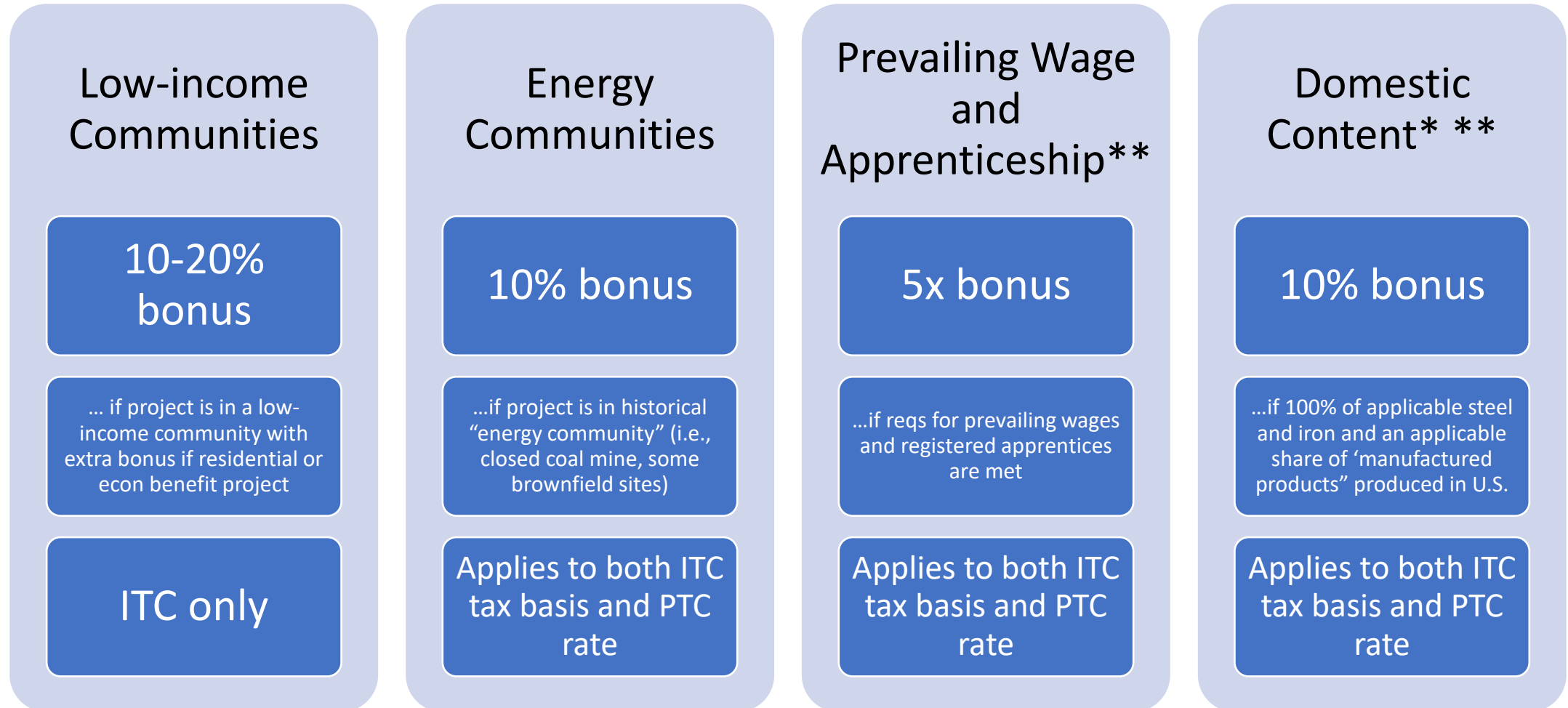
# Credit Amounts

---

- The most common credit is the Investment Tax Credit (ITC). The amount of the ITC is calculated as a base credit of 6% on the investment basis of the project.
- For the replacement of existing municipal vehicle fleets with new electric vehicles, entities can receive up to \$7,500 per light vehicle and up to \$40,000 per larger vehicle.

# Some Basics on Bonuses

**Please Note: Additional details apply**



\* - On December,28, 2023, IRS issued new guidance on this rule for projects beginning in 2024 (see Notice 2024-9)

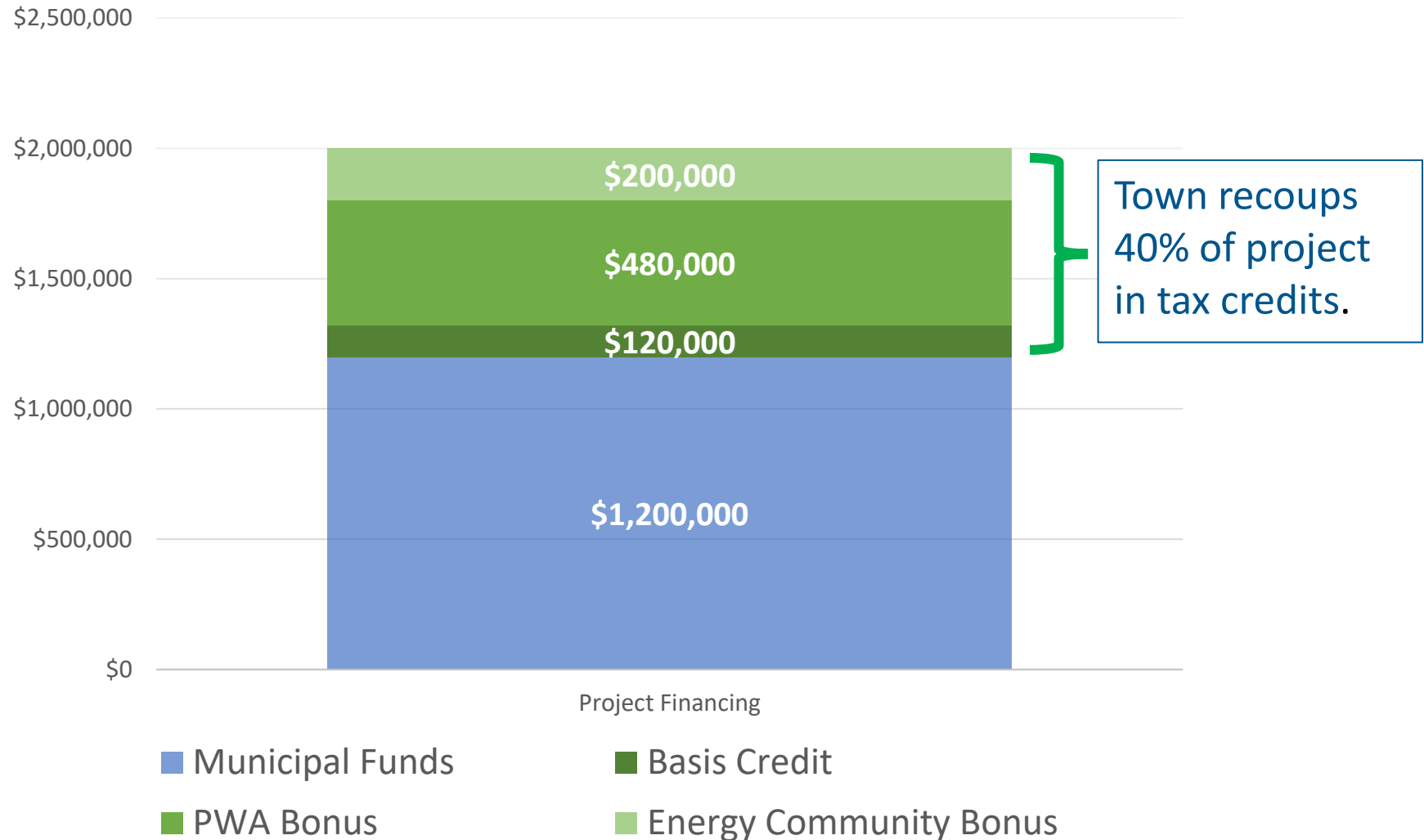
\*\* - Applicable for projects of a size >1MW



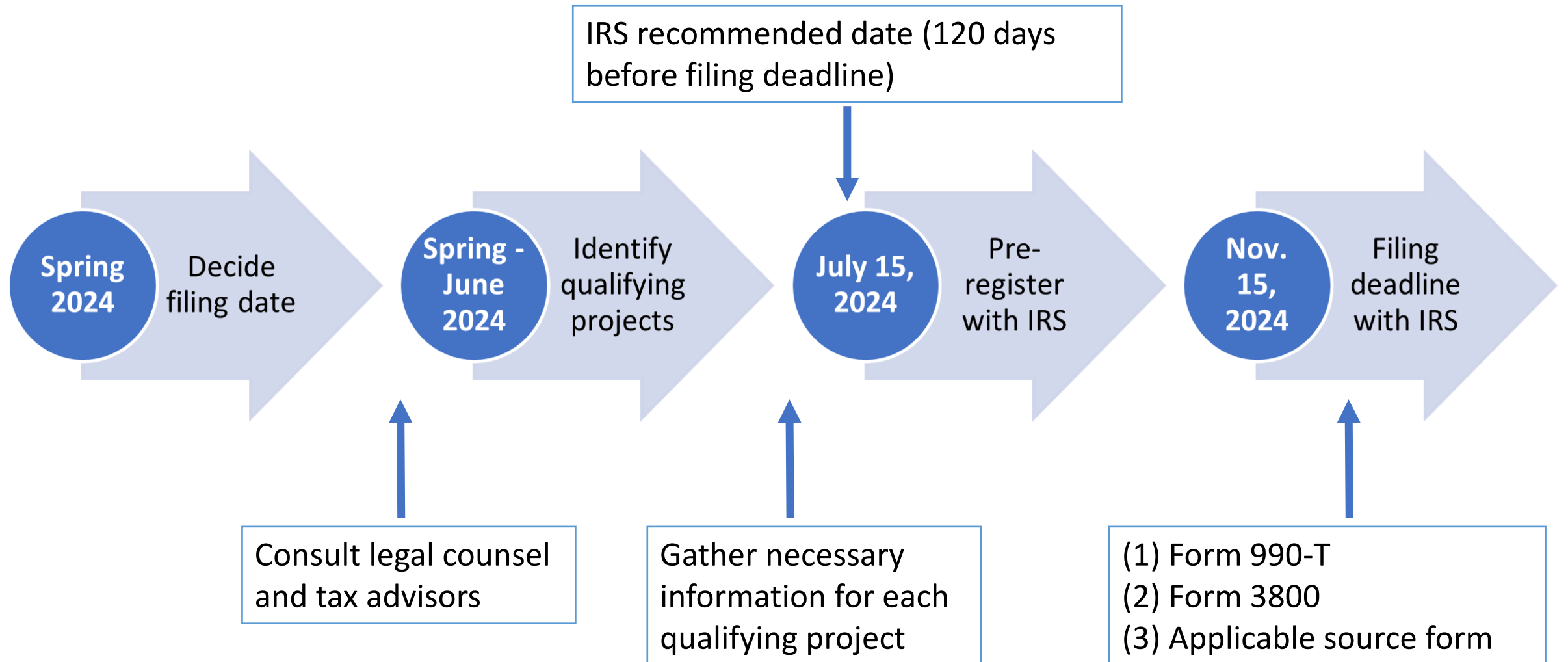
# How Direct Pay Credits and Bonuses Affect a \$2M Project

## Example:

- A municipality with brownfield status installs microgrid with solar and energy storage.
- Eligible for an ITC (Energy ITC, Sec. 48)
- Project cost is \$2M



# Do you have 2023 projects? Here's the process timeline



# Next Steps for Elective Pay: Beyond 2023

---

1. Identify projects in the pipeline with in-service dates of 2024 or later:
  - Build an internal team by working with financial advisors and counsel to confirm eligibility, gather documentation, address key questions.
  - Complete pre-registration for each project in the IRS Pre-registration portal. This should be completed 120 days prior to the tax filing deadline.
  - File Tax Forms generally 4.5 months after the end of the tax period.
    - May 15<sup>th</sup> for calendar year filers and November 15<sup>th</sup> for fiscal year filers.
2. Inventory capital needs (new construction, retrofits or vehicles) over the next decade:
  - Include tax credit value into real estate and vehicle fleet planning.
  - Ensure architects, designers, and facilities managers are aware of tax credit opportunities.
3. Make a plan for how your municipality will get its share of refunds over the next decade.

# Helpful Resources

---

- [FFIO's Direct Pay Information Page](#)
- [Elect Pay Overview](#)
- [CAP webinar](#) on Direct Pay
- Lawyers for Good Government [Elective Pay resources](#), including worksheets on:
  - [EV Purchase](#)
  - [EV Infrastructure](#)
  - [Tracking](#) ITC and PTC projects
  - [Slides](#) from a presentation to local governments (but provides overview of Direct Pay for all)
- IRS [Video Tutorial](#) on pre-registration
- [IRS Q&A](#)

Thank you!

Additional Slides



# Applicable Credits for Direct Pay:

---

- Direct Pay enables cities and towns to leverage both production tax credits (“PTCs”) and investment tax credits (“ITCs”)
- PTCs include credits for producing electricity from renewable sources, including wind, biomass, geothermal, and solar (Sec. 45).
- ITCs include credits for investing in renewable energy projects such as solar, small wind, microgrid controllers, and combined heat and power properties (Sec. 48). ITCs also include credits for purchasing commercial clean vehicles (Sec. 45W) and investing in alternative fuel vehicle refueling and charging properties (Sec. 30C).

# Next Steps: Do you have 2023 Projects?

---

- 1. Decide filing date.** Cities and towns must first decide whether they will file based on a **calendar or fiscal year**. Filing on a calendar year would enable the entity to potentially receive credit for clean energy projects placed into service at any point during 2023.
  - The IRS is giving cities and towns an automatic one-time 6-month extension. Normally, entities filing according to a calendar year would have to file 4.5 months after end of tax year (May 15), For this time only, that deadline is automatically extended to **November 15<sup>th</sup>**.
- 2. Identify qualifying projects & gather necessary information.** The IRS requires that eligible entities **own the asset** for which they are seeking credits. To understand if a project owned by an entity qualifies for a particular year, the entity must determine that the project was **placed into service**.
- 3. Pre-register 120 days before filing date.** Entities must pre-register with the IRS to obtain a Unique Registration Number for each applicable credit property. The IRS recommends registering 120 days before the applicable filing deadline. This would be **July 15<sup>th</sup>** for calendar year filers.
- 4. File on November 15<sup>th</sup>, 2024!** For calendar year filers seeking to claim credits for 2023 projects, file **Form 990-T, Form 3800, and the applicable source form** for calculating and claiming any applicable credits