

# Nonprofits Can Take Advantage of the Inflation Reduction Act

With an estimated \$369 billion in tax credits and financing for clean energy strategies, the federal Inflation Reduction Act is the single largest U.S. investment in climate action. This funding makes pursuing clean energy solutions easier and more affordable than ever, and much of this funding will be available over the next ten years.

## Nonprofits Can Benefit from Elective Pay



Until now, only for-profit businesses could take advantage of federal tax credits but the IRA changes that.

Nonprofits, schools, and local governments can now take advantage of the newly created Elective Pay (previously called Direct Pay) to receive federal reimbursements for 30% or more of the costs associated with eligible projects. Solar, geothermal, battery storage, and fleet vehicles are all eligible projects for tax credits and Elective Pay.

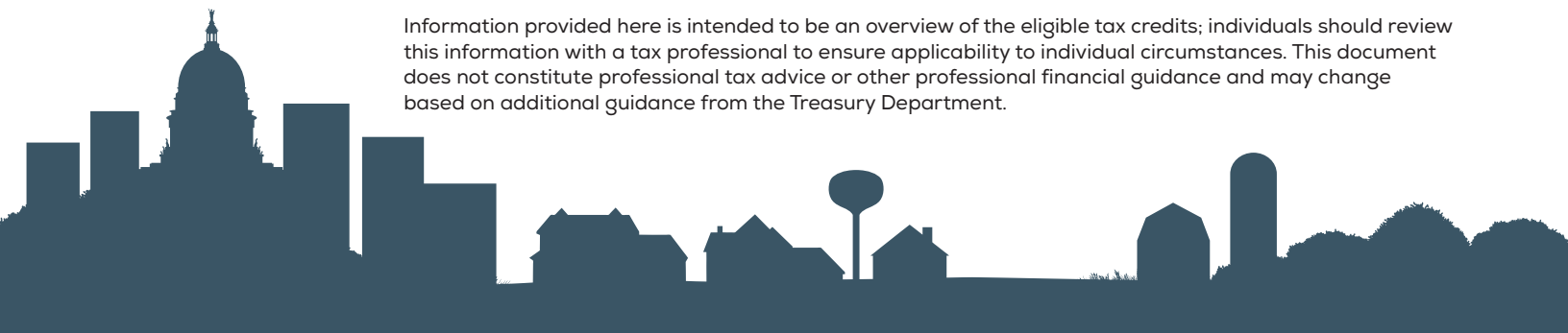
To access Elective Pay, tax-exempt entities identify and complete their qualifying projects, complete a pre-filing form with the IRS to receive a project registration number, and then include that project information in their required annual tax forms for the applicable tax year during which the project was completed. Filing entities will then receive the Elective Pay credit as a reimbursement from the federal government. Filing forms will be available later in 2023.

For more information see: [daneclimateaction.org/what-you-can-do/Federal-Funding-for-business#financing](https://daneclimateaction.org/what-you-can-do/Federal-Funding-for-business#financing) and IRS general guidelines: [irs.gov/credits-deductions/elective-pay-and-transferability](https://irs.gov/credits-deductions/elective-pay-and-transferability).

## Learn More and Stay Up to Date with Dane Climate Alerts

Sign up for our newsletter to stay informed about new Inflation Reduction Act announcements and other federal funding opportunities. Go to [DaneClimateAction.org/federal-funding-for-business](https://DaneClimateAction.org/federal-funding-for-business).

Information provided here is intended to be an overview of the eligible tax credits; individuals should review this information with a tax professional to ensure applicability to individual circumstances. This document does not constitute professional tax advice or other professional financial guidance and may change based on additional guidance from the Treasury Department.



# Incentive Calculations

Several types of bonus credits can increase the funding for solar, geothermal, and battery storage projects up from 30%. See below for some of these competitive bonus credits.

	Less than 1 MW	Over 1 MW	
Base Credit	30%		
Meets prevailing wage/apprenticeship	N/A	No: 6%	Yes: 30%
Domestic content	+10%	+2%	+10%
Energy community	+10%	+2%	+10%
Bonus credits (competitive, with annual limits)			
LMI communities or tribal land	+10%	+10%	+10%
Qualified low income building or impact	+20%	+20%	+20%

## Example Calculation

Forest Edge Elementary School is the first Net Zero School in Wisconsin. Completed in 2020, it features geothermal, solar arrays, and battery storage. The actual project costs were \$2,500,000. Below illustrates the tax credits for which the project would be eligible if the project were to move forward after the Inflation Reduction Act were passed, assuming the project was over 1MW.

Base rate with/without prevailing wage met	Yes +30%		No +6%	
Domestic content	Yes +10%	No +0%	Yes +2%	No +0%
Subtotal of credits	40%	30%	8%	6%
Tax-exempt financing*	15% of 40% = 6%	15% of 30% = 4.5%	15% of 8% = 1.2%	15% of 6% = 0.9%
Subtotal %	40%-6% = 34%	30%-4.5% = 25.5%	8% - 1.2% = 6.8%	6% - .9% = 5.1%
Total Elective Pay	\$850,000	\$637,500	\$170,000	\$127,500
Final project cost	\$1,650,000	\$1,862,500	\$2,330,000	\$2,372,500

\* If entities use tax-exempt financing for the project there is a 15% penalty on the Elective Pay credit.

The IRA increased the tax deductions for energy efficiency improvements to new and retrofit buildings. Tax-exempt entities cannot directly access these energy efficiency incentives via Elective Pay but they can transfer the tax deductions to their project design team. For example, a nonprofit could contract with a firm to design and potentially build a project that saves energy and then transfer the tax deductions to the firm in exchange for post-construction commissioning. To explore this possibility, tax-exempt entities should begin this discussion as early as possible in the building design process.



[DaneClimateAction.org/what-you-can-do/federal-funding](https://DaneClimateAction.org/what-you-can-do/federal-funding)

