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FAQs on Direct Pay: Building Jobs & Sustainable Public Energy in Local Communities

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The information in this FAQ will be updated periodically as the IRS provides further guidance regarding the Direct Pay credits.

Introduction

At the end of 2022, Congress passed the Inflation Reduction Act (IRA), a historic investment in renewable energy. This bill is a once-in-a-generation opportunity to transition toward publicly-owned, sustainable energy. The IRA is a critical engine for creating good-paying jobs and economic activity in the United States. A recent study from the University of Massachusetts Amherst found that the IRA will create [9 million good-paying jobs](#) over the next decade, including 6 million generated through grants, loans, and tax credit provisions.

For the first time ever, public agencies can claim sustainable energy tax credits under the “Direct Pay” Program (Direct Pay and [Elective Pay](#) are sometimes used

interchangeably). **This means that eligible entities like cities, states, and other tax-exempt organizations will receive tax-free, cash payments from the IRS for sustainable energy projects** as long as all requirements are met.

Moreover, **any eligible entity that applies for a Direct Pay tax credit with an eligible project should be approved.** By increasing access to these credits, Direct Pay will help build sustainable energy infrastructure and create good-paying jobs.

1. What is Direct Pay?

For the last several years, the only type of entity that could access tax credits for sustainable energy like wind, solar, and energy efficiency was for-profit entities that were required to pay federal taxes.

But thanks to the IRA, **tax-exempt entities can now also get tax credits for sustainable energy projects.** This expanded access to the Investment Tax Credit (ITC) and Production Tax Credit (PTC) for sustainable energy and energy efficiency.

Under Direct Pay, tax-exempt entities will be able to receive a tax-free, cash payment from the IRS for sustainable energy projects.

The IRA created Direct Pay for various sustainable energy tax credits. This guide relates to two of them, the ITC and the PTC. **These Direct Pay credits create an opportunity to radically expand publicly-owned energy, support communities transitioning away from polluting energy sources, support affordable energy, and create good jobs for local communities.**

2. Who is Eligible to Receive Credits Through Direct Pay?

A wide range of **tax-exempt entities, like non-profit organizations, municipalities, states, public utility districts, rural electric cooperatives, Tribes, school districts,** and others can receive credits through Direct Pay (also referred to as “Elective Pay”). A non-exhaustive list of examples includes:

- Any organization exempt from federal income tax.
 - Ex: Public schools, private nonprofit, and charter schools
 - Ex: Houses of Worship, Community and Senior Centers
- Any State or political subdivision.
 - Ex: The Governor’s office of the State of Arizona
 - Ex: The Energy Office of the State of Arizona
- Any agency or instrumentality of a state, the District of Columbia, or political subdivisions thereof.

- Indian Tribal governments, Any Alaska Native Corporation, or political subdivisions thereof.
 - Ex: The Cheyenne River Sioux Tribe
- Rural electric cooperatives.
 - Ex: Roanoke Electric Cooperative

3. What Types of Projects Could Direct Pay Apply to?

Here's a non-exhaustive list of the types of projects that could use Direct Pay (sometimes referred to as "Elective Pay") funding:

- Your City invests in weatherization retrofits on the Senior Center to save money that's diverted to helping residents who are behind on their utility bills.
- The local church, temple, synagogue, or mosque puts solar panels on land it owns and uses the clean energy savings to fund its community food pantry.
- A public housing tenants' association creates a Co-op to build a solar power project on top of a cleaned-up Brownfield plot that provides low-cost, clean energy and jobs for the tenants, their families, and neighbors.
- A rural public school builds a couple of utility-scale wind turbines that provide power for its building. With the energy savings, the school district can eventually fund charity health care and medical debt forgiveness.
- A Tribal Government creates a program to build community-owned solar and wind power that creates good-paying, union jobs for Indigenous people and brings electricity to families on [parts of the reservation that have been living without power](#).

4. How Much Money Can I Get with the Direct Pay Credits?

That really depends! We at CPCC are mostly focused on two major Direct Pay (sometimes referred to as "Elective Pay") tax credits for sustainable energy, the Investment Tax Credit (ITC) and the Production Tax Credit (PTC). The ITC is a one-time singular credit that you would receive once the energy project begins producing energy. The PTC is a credit based on the electricity that is produced by the renewable energy system over ten years.

Projects can receive an **ITC** base credit of 6% and **up to 70% of the total cost of the project** if the project meets certain requirements. For systems greater than 1

megawatt (MW) in size, the full **PTC** tax credit is **2.75 cents/kW** if the Prevailing Wage and Apprenticeship requirements are met. In addition, the PTC is eligible for the Energy Community 10% bonus credit and the Domestic Content 10% bonus credit.

To learn more about how the ITC, PTC and the bonus credits work, click [here](#).

5. How Do I Apply for Direct Pay?

More information on how to apply for Direct Pay (sometimes referred to as “Elective Pay”) via the IRS pre-filing registration process will be available by late 2023. **Here is what we know based on information from the [IRS](#) and the [White House](#):**

- First, you must fill out an IRS registration form (pre-filing) for the Direct Pay credit. You will need to provide information about your organization in the online registration form. As stated above, we will know more about the registration process later in 2023.
 - You will apply on a registration form that will eventually be on the [IRS website](#).
- After you fill out the pre-filing registration form, you will get the required registration number before filing your taxes.
- Then, you must start your project and ensure it begins generating energy in the same tax year you apply for Direct Pay.
 - If your project ends up being in service in a different year than your original pre-filing registration, you will have to re-submit pre-filing for the year you claim a Direct Pay credit.
- Finally, you will need to file your taxes! You will receive the payment after your return is processed electronically or by mail.

We will update this FAQ as soon as more information is available from the IRS.

6. What Exactly is the Direct Pay Pre-Filing Registration?

I know it might sound confusing! The first step is to [pre-file](#), in order to eventually claim Direct Pay. Essentially, it is designed to help the IRS expedite the process during tax time, weed out any “bad” actors, and ensure there are no fraudulent claims. This specific registration process **must be completed for each credit you wish to claim** before you can claim Direct Pay on your tax forms. And remember - you will need the **registration number** from this form, so don't lose it!

We will update this FAQ as soon as more information is available from the IRS.

7. When will I Receive My Direct Pay Tax Credits?

In all likelihood, the soonest anyone will receive Direct Pay is April 2024, which is the next tax filing season. The official IRS pre-filing registration process to obtain your credit is not yet available. According to the [IRS](#), more information on the registration process will become available in late 2023.

We will update this FAQ as soon as more information is available from the IRS.

8. How Do I Satisfy the Prevailing Wage and Apprenticeship Requirements?

The IRA imposes some labor requirements for projects with an output greater than 1 Megawatt to receive the full base ITC or PTC. These requirements will help protect local wages and incentivize clean-energy workforce development.

The ITC increases from 6% to 30% if Prevailing Wage and Apprenticeship requirements are met. The PTC similarly increases from 0.55 cents per kilowatt/hour to 2.75 cents per kilowatt/hour.

Prevailing Wage and Apprenticeship requirements mean that entities must pay workers at least the current going rate for similar projects in a given geographic area, known as the "Prevailing Wage." To find the Prevailing Wage determination in your area, [click here](#).

The program also requires entities to utilize registered apprentices on Direct Pay projects. If a project begins in 2023, the IRA apprenticeship standards require 12.5% percent of total labor hours on a supported construction site to be completed by qualified apprentices. If a project begins after 2023, the total percentage of labor hours completed by apprentices increases to 15%. For more on registered apprenticeships, [click here](#).

If a project with an output greater than 1 MW does not meet the labor requirements, a taxpayer will not receive the increased credit amount but can still receive the value of the credit through Direct Pay.

9. How Can My Project Create Good-paying, Union Jobs?

While not required by law to access the expanded Direct Pay tax credit, entities utilizing the program can impose standards that develop best labor practices when undertaking projects that require lots of construction or other high labor input. We encourage entities to partner with local unions on Direct Pay funded projects to protect high-quality jobs and expand the utilization of unionized labor.

Entities should also consider employing pre-hire collective bargaining agreements, known as Community Workforce Agreements (CWAs) or Project Labor Agreements (PLAs), to avoid labor-related disruptions on large construction projects and create employment opportunities for members of the local community. For more on PLAs and CWAs, [click here](#).

CWAs can stipulate certain pro-equity policies, such as hiring locally to draw upon the existing labor market in a given community (particularly from historically disadvantaged zip codes or underrepresented groups). They can also include oversight and accountability requirements to monitor the implementation of the CWA.

10. Can the IRS Help me Understand if I'm Eligible for Direct Pay?

Unfortunately, the IRS cannot help you determine if you or your organization is currently eligible for any of the Direct Pay tax credits. See Question 2 above for more information on who is eligible.

We also encourage you to contact us directly if you have questions about eligibility or need assistance navigating this process. You can reach out to katie@progressivecaucuscenter.org for more questions.

11. I Have More Questions, Who Can I Call?

We encourage you to [reach out to us](#) directly if you have questions on eligibility or need assistance navigating this process.

The IRS also has a very busy customer service line, which you can find more information on who to call [here](#). However, please note that the IRS cannot tell you if your project or organization qualifies for the Direct Pay Tax credit.

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