

Green Tax Credits

Let's look closely at the "green" credits that were included in the Inflation Reduction Act (IRA) of 2022. At first, these credits were not generally available to not-for-profit organizations – unless you have unrelated business income taxes payable. However, with the release of Internal Revenue Code section 6417 – as part of the guidance on the IRA credits – the concept of the "Elective Payment Option" or "Direct Pay" was established. This proviso made it possible for not-for-profit organizations to participate in some IRA credit programs and receive "credit" dollars as a cash refund – not a grant.

There are two types of available credits in the IRA: 1) Investment Tax Credit; 2) Production Tax Credit. Pretty much, they are just as they appear to be. The ITC would be for items purchased/installed for your institution's use (solar panels, biomass facilities, electric vehicles). The PTC would be for investments in projects, equipment, etc. that would help your institution manufacture/produce/sell a manufactured product (electricity, renewable energy equipment, etc.) These are generally available for projects placed into service after January 31, 2023 – or later. **This program runs through 2032** – a ten-year project.

For most institutions, the focus will be upon the Investment Tax Credit. This could result in an up to 70% credit for qualified expenditures. Also, receiving government grants for a project does not disqualify the project from the ITC – it may be limited, but not disallowed.

Many experts and advisors have pointed out that institutions like yours will generally benefit from taking advantage of credits that are available to offset projects and/or purchases that you already have planned, rather than planning projects simply because the credits might be available. The most likely code sections your institution may qualify for are:

- 30C – Alternative Fuel Vehicle Refueling
- 45W – Qualified Commercial Clean Vehicles
- 48 – Investment Tax Credit
- 48E – Clean Electricity Investment Credit (begins January 1, 2025)

This includes items such as solar panels, wind electricity, electric vehicle recharging stations, and "clean" commercial vehicles (buses, autos, trucks, equipment). For projects of less than 1 megawatt hour (about the size of a 7 acre solar array), the initial level of credit will be 30%. Then, the domestic content (made in the U.S.A.) component can add 10% more. Then, 10% each might be available for projects in an "Energy Community" and/or "Environmental Justice Allocation for Low-income Community or Tribal Land" (generally mapped using the "New Market Tax Credit" qualifications). Finally, a further 20% might be available for projects in an "Environmental Justice Allocation for Affordable Housing or Low-Income Community Benefit." All of these could get the total opportunity up to a 70% credit.

First, for institutions to take advantage of the credits requires pre-registration of your “green project” under the elective payment program for applicable entities and eligible taxpayers who have earned one of the IRA clean energy credits. This is a “refundable credit” meaning you may get the benefit of the credit even if you cannot use the credit to offset a tax liability.

A good first step may be to take a look at the IRS’ I.R.A. 2022 website at:

<https://www.irs.gov/inflation-reduction-act-of-2022>

Just for the fun of it, let’s look at a quick example...Troas Bible College is looking to purchase and put into service a new bus to assist students in moving around campus and the immediate area. They have applied for and received a government grant in the amount of \$80,000 for the bus project. The cost of the bus is \$150,000. TBC’s out of pocket cost at that point would be \$70,000. The “bus project” qualifies for the ITC under I.R.C. section 45W. As the TBC Finance Team analyzes the “levels” of opportunities with the ITC from the IRA (love those acronyms!), they qualify for a 50% credit. That would mean \$75,000 in ITC. However, the credit – when a government grant is also in play – is “limited” to the institution’s cash outlay, which equals \$70,000. Notice, though, that in this example, the whole cost of the bus (\$150,000) is paid for with “new money.”

There are several “hoops” to jump through in qualifying for and applying for the IRA credits. Many are still being defined by the IRS and other government agencies. One important point is that you are required to “register” each project prior to putting them in service. Another point is that you will “apply for” the credits through filing of Form 990-T (along with Form 3800 – and maybe others) – even if you do not owe any unrelated business income taxes.

We will continue to monitor this area of interest and will provide updates to you as they become available. More to follow!