



WHAT IS THE INFLATION REDUCTION ACT (IRA)?

The Inflation Reduction Act (IRA) was signed into Law August 16, 2022



Over \$700 billion in clean energy credits and incentives



Provides unprecedented **cash refund opportunities** for state governments, political subdivisions, higher education institutes, and tax-exempt organizations



Some of the most popular direct pay **projects** include Solar Installations, Geothermal HVAC systems, microgrid storage, EV Fleet purchases, and EV Charging Stations



Bonus adders enhance credit amount, including prevailing wage and apprenticeship requirements, domestic content, low-income community and energy community, which could increase a refund from **6% to 70%** of the qualified investment amount.



WHEN IS COMPLIANCE DUE AND WHAT SHOULD ORGANIZATIONS CONSIDER?

Nov 15th

(after extension),
for Dec 31st year-end filers

May 15th

(after extension)
for June 30th year-end filers

- Annual filing of a 990-T and correlating credit forms.
- A project's filing year is based on its placed in service date (ie: date the project is deemed ready and available for its intended use).
- A check is issued from the Internal Revenue Service after filing is complete.
- State and local governments with a fiscal YE may have opted to file based on a calendar YE for their 2023 compliance.
- Consider how to complete compliance for the current year as well as planning for compliance and funding sources for future years.



WHAT ARE SOME COMPLEXITIES WHEN CALCULATING A CREDIT?

CATEGORY	CREDIT (%)	VALUE	POTENTIAL CHALLENGES
Eligible Basis		\$10,000,000	<ul style="list-style-type: none">• Incorrect or incomplete calculations of eligible basis• Beginning of construction dates not met or documented correctly, making project ineligible
Base Credit	6%	(600,000)	<ul style="list-style-type: none">• Incomplete or incorrect documentation• Project is missed in project discovery, and not included in return• Return or pre-registration deadlines missed
Prevailing Wage and Apprenticeship (PWA) Requirements	+24%	(2,400,000)	<ul style="list-style-type: none">• Contractor does not accurately meet or document PWA requirements• Incorrectly assessing project as less than 1 megawatt, therefore incorrectly assuming PWA is not required
Domestic Content (DC)	+10%	(1,000,000)	<ul style="list-style-type: none">• Contractor does not accurately meet or document domestic content
Energy Communities (EC)	+10%	(1,000,000)	<ul style="list-style-type: none">• Opportunity is missed to gain additional benefits in energy communities
Specified Low-Income Community (LIC)	+10%-20%	(2,000,000)	<ul style="list-style-type: none">• Opportunity is missed to gain additional benefits in low income communities
TOTAL	Up to 70%	(7,000,000)	Entity is not prepared to defend an audit
	10-100%	700,000 – 7,000,000	If Domestic Content is not met there will be a 10% reduction on the entire credit if beginning of construction (BOC) is in 2024. If DC is not met and BOC is in 2024, there will be a 15% reduction on the entire credit. If DC is not met and BOC is in 2026 or later, the project is not eligible for direct pay and the credit is \$0.



✓ WHAT WE'VE LEARNED FROM YEAR 1 OF IRA COMPLIANCE AND HOW DIRECT PAY ENTITIES CAN ENHANCE THEIR BENEFIT

Our experienced team has worked on several IRA Direct Pay compliance engagements for States, Local Government, Higher Education and Tax-Exempt Organizations in the first year of compliance. Below is a summary of what we learned:

CATEGORY	KEY CONSIDERATIONS FOR COMPLIANCE
Calculating Eligible Basis	Tax capitalization principles should be used to determine which portions of the direct and indirect costs can be included in eligible basis. This gets substantially more difficult when the energy property is part of a larger build/project or a more complex system, such as a geothermal HVAC system. Extensive data is required from contractors to determine cost segregation and properly calculation the eligible basis. There is risk of incorrect or incomplete calculations of eligible basis, potentially leaving money on the table or room for audit
Beginning of Construction	Beginning of construction date is used to determine eligibility of expiring credits, as well as impacts to PWA and DC ratios. Beginning of construction dates not met or documented correctly could make project ineligible and/or effect ability to obtain bonus adders.
Prevailing Wage and Apprenticeship Requirements (PWA)	Prevailing Wage & Apprenticeship requirements require weekly time tracking. Davis-Bacon does not cover apprenticeship ratios. If contractor does not accurately meet or document PWA requirements, state can miss out on significant bonus adders. Prevailing Wage & Apprenticeship requirements should be included in contracting and monitored regularly throughout construction.
Domestic Content (DC)	Without meeting domestic content the entity may miss out on a 10% DC bonus adder. In addition, without meeting DC the direct pay credit gets reduced or eliminated all together, missing out on credit opportunities. Entities are looking for ways to build DC into their contracting process
Energy Communities (EC)	Entities should explore projects in EC so opportunity is not missed to gain additional benefits.
Low-Income Community (LIC)	LIC applications are due prior to pre-filing. Entities should review project locations and apply for LIC so they do not miss an opportunity to gain additional benefits in low-income communities.
Audit Readiness	Entities should validate they have properly prepared back up data in case of audit.
Year End changes	State and local governments opting for calendar year end may want to make year end changes back to fiscal in future compliance years once the IRS issues guidance.





CATEGORY	KEY CONSIDERATIONS FOR ENGAGEMENT MANAGEMENT
Project Discovery	Governments, Higher Education Systems, and other Tax Exempts may be part of large and decentralized organizations, which can make it difficult to gather project data and create an inventory of projects. If a project is missed in project discovery or data received from departments is incorrect or incomplete, and benefit may be missed.
Project Management	Data needs to be gathered from multiple sources and vendors. Having a key project manager can drive efficiency and relief strain on state resources.
Contracting	Entities are looking for assistance to pull in IRA requirements into contracting. This may include data collection to help cost segregation during eligible basis calculation, Meeting and properly documenting PWA requirements, as well as meeting & properly documenting DC requirements. Entities are also considering how to include 179D into contracting language.

CATEGORY	KEY CONSIDERATIONS FOR PLANNING
Use of refunds	Refunds from the IRA often come several months after the project is placed in service, making it difficult to include IRA funding into budgeting considerations. Entities are working to utilize refunds from the IRA into a central repository to help fund additional projects and further invest in clean energy.
Municipality Compliance	States would like to assist local municipalities (cities, counties, tribal communities, higher education) with benefits from the IRA. This could include reach out efforts, training on how to file returns, or assisting municipalities with compliance.
Funding Sources	Project specific federal grants or other tax-exempt funding may limit the amount of IRA credit applicable. Other federal grants are available for clean energy, Entities should consider the myriad of grants available for clean energy. Entities should consider the best way to fund projects.
Project Planning	States are looking to model IRA credits within the project planning phase and consider IRA funding when assessing viability of projects



WHAT CREDITS ARE ELIGIBLE FOR DIRECT PAY?








Some of the most popular credits for direct pay:

CREDIT	CLEAN ENERGY INVESTMENT	CREDIT DESCRIPTION
 §45W – Qualified Commercial Clean Vehicles	<i>Electric Vehicles and Plug in Hybrids</i>	Provides an ITC equal to the lesser of 15% (30% for vehicles not powered by gasoline or internal combustion engine) of the vehicle or the incremental cost of a qualified commercial clean vehicle, limited either \$7,500 or \$40,000 per vehicle based on gross vehicle weight (over or under 14,000 lbs).
 §30C – Alternative Refueling Property	<i>Electric Vehicle Charging Stations</i>	Provides an ITC equal to either 6% or 30% of costs for qualified alternative fuel vehicle (“QAFV”). Must be in a <i>Low Income Communities</i>
 §48 – Investment Tax Credit	<i>Solar, Wind, Geothermal HVAC Systems, Energy storage technology, microgrid controllers, linear generators and dynamic or electrochromic glass.</i>	Provides a direct pay refund on a variety of renewable (e.g. solar, wind) and conventional energy technologies to incentivize investment in new energy resources and adopting more efficient use of fuel. Base credit is 6% (or 2%) and with 30% (or 10%) (additional adders available)
 §48E – Clean Electricity Investment Tax Credit		<ul style="list-style-type: none"> Starting in 2025, requires a technology-neutral ITC qualified capital investments in an electric generating facility or energy storage property for which GHG rate is not greater than zero.



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Other available credits:

CREDIT	CREDIT DESCRIPTION
 §45 – Production Tax Credit	Provides a 10-year tax credit for a variety of renewable energy technologies to incentivize electricity generation to be sold to a third party. New qualified energy resources include: solar. Base credit is 0.55 cents per kWh bonus credit 2.75 cents per kWh (eligible for adders).
 §45Y – Clean Electricity Production Credit	Provides a 10-year technology-neutral PTC, equal to the kWh of electricity produced by the taxpayer times an applicable amount (base of \$0.003/kWh up to \$0.015 kWh) for the production of clean electricity produced at a qualifying facility for which the GHG emission rate is not greater than zero and electricity is sold, consumed or stored.
 §45V – Clean Hydrogen	Provides a credit of up to \$3 per kg of clean hydrogen over a 10-year credit period for the production of clean hydrogen at a qualified facility in the U.S. Taxpayers may elect to claim an ITC in lieu of the PTC of up to 30%.
 §45Q – Carbon Capture Sequestration	Provides a credit ranging from \$12-\$17 or \$60-\$85 per metric ton (MT) based on the amount of carbon oxides captured from a qualified facility over a 12-year period. The capture carbon must be put to an end use (disposal, injection in EOR projects, or utilized). For direct air capture facilities, the credit ranging from \$26-\$36 or \$130-\$180 per MT.
 §48C – Qualified Advanced Energy Project	Provides an Investment Tax Credit (“ITC”) through an application process administered through the Department of Energy equal to 6% or 30% of the investment with respect to any advanced energy project.
 §48D – Advanced Manufacturing Investment Credit	Provides an ITC for investing in a facility for which the primary purposes is the manufacturing of semiconductors or semiconductor equipment.
 §45U – Zero Emission Nuclear Power Product Credit	Provides a PTC, with a base credit of 0.3 cents per kWh or bonus credit of 1.5 cents per kWh (before inflation adjustment) for the production of electricity from a nuclear facility (other than a facility in 45J) sold to an unrelated person.



Links:

30C Tax Credit Eligibility Locator	<ul style="list-style-type: none"> For the 30C Alternative refueling property (EV Chargers) you must be in a low income community or the credit is \$0. The low income community map is found here: 30C Tax Credit Eligibility Locator
48 Credit Energy Community Bonus Adder	<ul style="list-style-type: none"> The energy community map is found here: IRA Energy Community Tax Credit Bonus If in an energy community an election is made on the filed return, no application process and Provides an additional 10% bonus adder
48 Credit Low Income Community Bonus Adder	<ul style="list-style-type: none"> The low income community map is found here: Mapping Tool for Clean Electricity Low-Income Community Bonus Credit Program Provides an additional 10%-20% bonus adder Bonus adder that is a competitive application process, so no guarantee that the funding will be awarded. You must apply before the project is placed in service. After you receive an allocation award you have 4 years to place the project in service. The application period for 25 is open on a rolling basis which ended at midnight February 14th, 2025. Applications submitted after this date will be considered on a rolling basis and only after the review of applications submitted during the 30-day period have been completed and only if capacity is available. The Low Income Community website is found here Home
IRS Elective Pay and Transferability	Elective pay and transferability Internal Revenue Service



HOW CAN DELOITTE HELP?

Deloitte can offer a range of services:



Compliance assistance can range from ad-hoc advisory & one off questions to full end to end compliance. Our experienced team worked on several IRA Direct Pay compliance engagements for States, Local Government, Higher Education and Tax-Exempt Organizations in the first year of compliance. We can share our lessons learned, as well as advice on putting together an “audit ready” package to support the refund claimed, including the various bonus adders.

Engagement Management Deloitte can help clients with central data collection, project discovery, educating individuals in your organization on IRA requirements and building construction contractor standard requirements to meet and document credits and bonus adders

Planning and Strategy Deloitte can help clients with planning for IRA funding with such activities as monitoring wage & apprenticeship requirements, estimating IRA credit values for projects under consideration, use of refund for additional clean energy investments

WHY DELOITTE?

DELOITTE HAS THE EXPERIENCE AND TECHNOLOGY TO EASE YOUR IRA CREDIT COMPLIANCE

Deloitte has a large and technically diverse team experienced in helping Government and Public Sector (GPS) clients in the U.S. Deloitte professionals have deep technical knowledge working with state governments in credits and incentives, renewable energy, carbon reduction strategy, engineering and construction management, financial modeling, and cost segregation studies. Our incentives practice has extensive experience helping GPS clients with IRA direct pay in year 1 of compliance.

 20 years of experience assisting private sector organizations secure energy tax credits	 400+ professionals in our Global Innovation and Investment Incentives practice (Gi3)	 17,000 clients have used our workflow management and communication tool
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CONTACT US

 DAVID YAROS Sustainability, Climate and Equity Tax Principal Deloitte Tax LLP dyaros@deloitte.com	 BRYANT KATTA IRA Compliance Tax Managing Director Deloitte Tax LLP bkatta@deloitte.com	 ELISE KELLY Sustainability, Climate and Equity Tax Senior Manager Deloitte Tax LLP eliskelly@deloitte.com
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