Inflation Reduction Act - Elective Pay Fact Sheet

Agency: U.S. Internal Revenue Service (IRS)

Category: Environmental Tax Credits

Eligible Applicants: Per the IRS, eligible applicants include tax-exempt organizations, States, and political subdivisions such as local governments, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, rural electric co-operatives, U.S. territories and their political subdivisions, and agencies and instrumentalities of state, local, tribal, and U.S. territorial governments.

Total IRA Funding: N/A. Total Elective pay-eligible tax credits are uncapped.

Overview: The Inflation Reduction Act of 2022 (IRA) provides elective pay (often called "direct pay") provisions for clean energy technologies. Tax-exempt and government entities will be able to receive a payment equal to the full value of tax credits for qualifying clean energy projects, including work to expand EVs/EV charging, clean energy generation, and housing/commercial building efficiency.

FY25 Grant Funding: N/A

Match Requirements: N/A. Elective pay reimburses eligible applicants for a portion of their investment in clean energy. The credit amount varies by tax provision.

Key Dates: Tax-exempt entities and governments must first pre-register with the Internal Revenue Service (IRS) no earlier than the start of the year in which they intend to earn the credit and at least 120 days before the due date for that year's tax return.

The deadlines to file a tax return can be February 15, May 15, or November 15, depending on each city's fiscal year. This is November 15 for most tax-exempt and governmental entities. Pre-registering and filing a tax return are prerequisites for receiving payment.

The recently-enacted One Big, Beautiful Bill Act maintains Elective Pay but accelerates the phase out of certain tax credits. Key provisions are listed below and a detailed breakdown is available from the Sabin Center for Climate Change Law.

- Solar and wind projects should begin construction within one year of OBBB enactment or be placed into service by the end of 2027 in order to receive the Investment Tax Credit (48E) and Production Tax Credit (45Y).

- The timeline for other clean energy projects such as geothermal, hydropower, nuclear and battery storage has increased; the investment and production tax credits are retained through 2033, with phase out beginning in 2036.

- Clean commercial vehicles (45W) must be acquired by September 30, 2025.

- Property for alternative fuel charging (30C) must be placed into service by June 30, 2026.

- Supply chain requirements related to Foreign Entities of Concern will apply to 48E and 45Y projects that begin construction after Dec. 31, 2025.

Key Funding Criteria: Criteria for receiving funding vary by tax provision.

Additional Funding Opportunities: Additional tax credits, also called bonuses, are available for qualifying energy projects. Several tax credits increase by 10 percent or percentage points if projects are located in energy communities.

Eligible Activities: Tax-exempt and government entities can use elective pay for twelve tax credits provided by the IRA. These tax provisions address energy generation and carbon capture, manufacturing, vehicles, and fuels. Eligible projects include clean energy generation, battery storage, community solar projects, electric vehicle (EV) charging infrastructure, and purchasing clean vehicles for state or municipal fleets. Criteria for receiving funding vary by tax provision.

Additional Information: Additional program information is available on the IRS website and Publication 5817. Information on the tax provisions eligible for elective pay is available via Publication 5817-G.