

Inflation Reduction Act: Incentives, Rebates and Direct Pay

**Metropolitan Mayors Caucus
Environment Committee Meeting
February 20, 2024**

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Historic Opportunity for Climate Action

- **American Rescue Plan Act**

- State and Local Fiscal Recovery Funds - “necessary investments in water, sewer and broadband infrastructure”
- Climate Change, Resilience, Equity

- **Infrastructure Investment and Jobs Act**

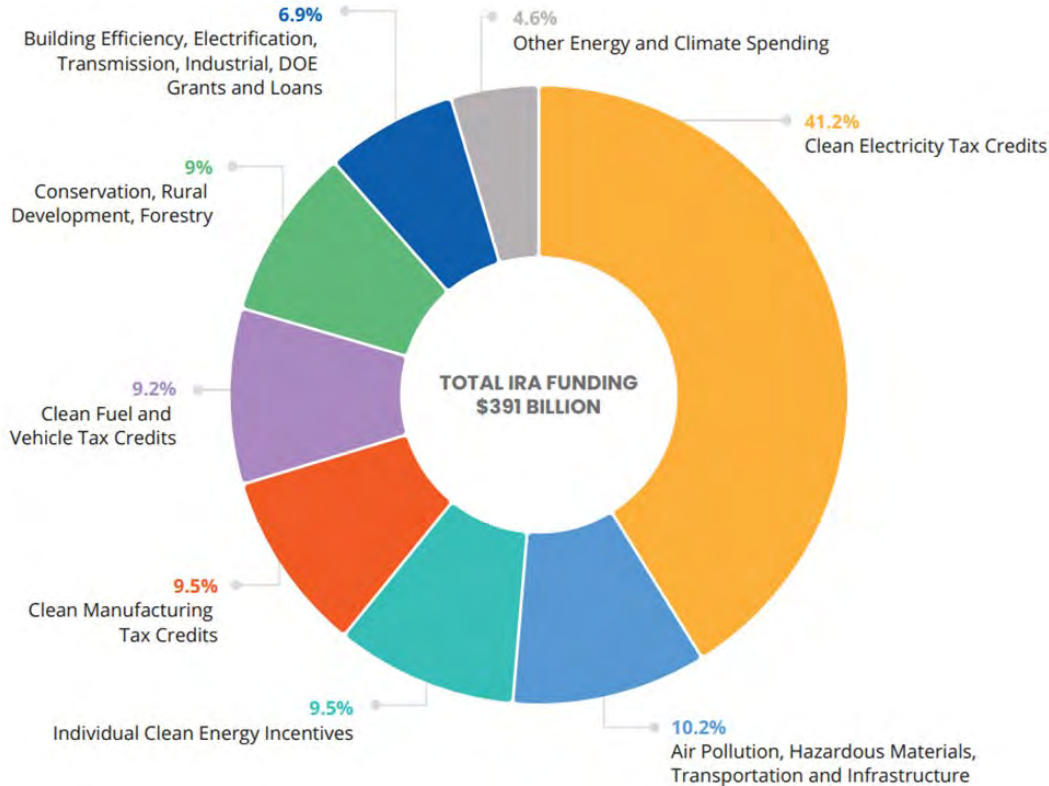
- Strengthening infrastructure against extreme weather events
- Reducing greenhouse gas emissions from transportation
- Investing in clean energy

- **Inflation Reduction Act**

- Improving building stock
- Reducing emissions from transportation
- Improving air quality
- Improving natural resources and agriculture
- Tax credits, incentives and rebates



Inflation Reduction Act Overview



Around 70% of all projected climate spending from IRA is in the form of tax credits.

IRA Tax Credits, Incentives & Rebates

- **Elective Pay (aka Direct Pay) for Tax-exempt Entities**
 - Tax exempt entities - state and local governments, municipal utilities, schools, nonprofits
 - Direct payment option in lieu of tax credits for the investment in and production of clean energy
- **Consumer Tax Credits**
 - [Homeowners](#) can receive up to 30% back through tax credits for making energy efficiency improvements to their home – up to maximum of \$1,200 per year.
 - Doors, windows and installation
 - HVAC systems and water heaters
- **Consumer Rebates**
 - \$9 billion in funding through the U.S. Department of Energy [Home Energy Rebates](#) through two programs:
 - \$4.3 billion in funding for Home Efficiency Rebates for energy-saving projects available to households of any income and owners of multifamily projects.
 - \$4.5 billion in funding for Home Electrification and Appliance Rebates, including point of sale rebates, for low- and moderate-income households
 - Rebate programs to be established by State Energy Offices. See rebate allocations by state [here](#).
 - States have until August 2024 to accept or decline the funds, and until January 2025 to submit a full application.

Unlocking the Potential of the Inflation Reduction Act (IRA)

The latest installment by the Alliance for a Sustainable Future on leveraging the historic new funding opportunities created by the IRA.

The landmark legislation, for the first time, **provides local governments the opportunity to receive the monetary benefit of tax credits directly from the federal government.**



What You Will Learn

How the Inflation Reduction Act creates new opportunities to fund climate change mitigation and resilience projects

What a direct pay tax credit is

How direct pay tax credits can improve the financial viability of climate and resilience projects

When direct pay tax credits may work for cities and nonprofits

How to start planning to use direct pay tax credits



Game Changer: Cities can **monetize** tax credits

Category	Direct Pay Tax Credits
Clean Electricity	Production Tax Credit for Electricity from Renewables
	Investment Tax Credit (ITC) for Energy Property
	Low Income Communities Bonus Credit
	Zero Emission Nuclear Power Production Credit
	Clean Electricity Production Tax Credit
	Clean Electricity ITC
Clean Fuels	Clean Fuel Production Credit
	Clean Hydrogen Production Tax Credit
Clean Vehicles	Credit for Qualified Commercial Clean Vehicles
	Alternative Fuel Vehicle Refueling Property Credit
Clean Energy Manufacturing	Advanced Energy Project Credit
	Advanced Manufacturing Production Credit
Carbon Emissions Reduction	Credit for Carbon Oxide Sequestration

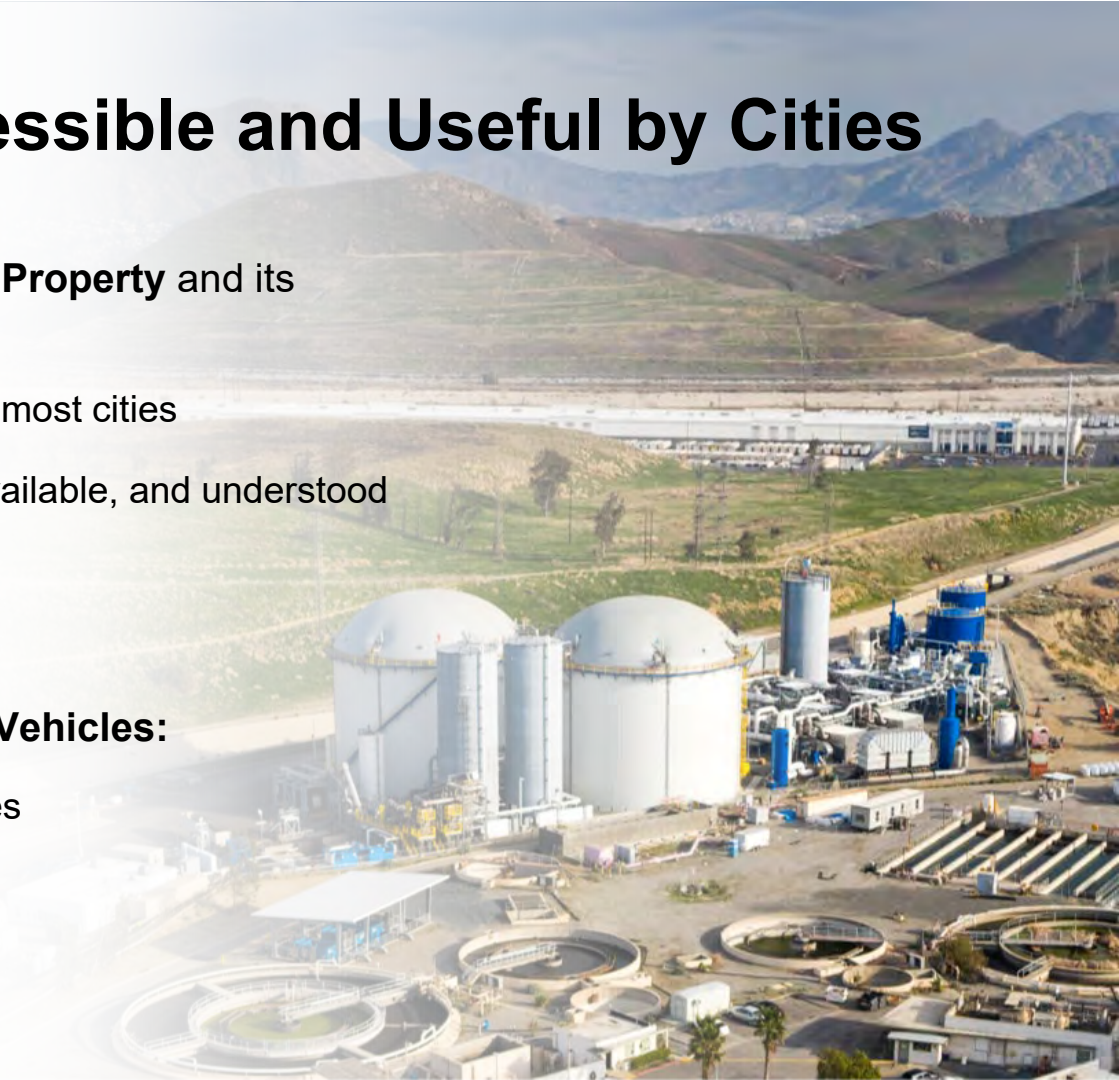
Tax Credits Most Accessible and Useful by Cities

Investment Tax Credit (ITC) for Energy Property and its replacement, the **Clean Electricity ITC:**

- Applicable to multiple projects found in most cities
- Technologies often commonly used, available, and understood
- Paid in a single lump sum
 - Streamlines tracking
 - Predictable budgeting

Credit for Qualified Commercial Clean Vehicles:

- Passenger and heavy duty fleet vehicles
- Ongoing replacement schedules



Direct Pay Tax Credits

Cities and other tax-exempt entities can receive a payment by filing a tax return during the applicable year

Amounts vary based upon the projects, base amounts are generally:

- 6% of qualified investments for investment tax credits
- 0.3 cents/kWh for electricity sold for production tax credits
- Up to \$7,500 per commercial clean vehicles under 14,000 pounds and up to \$40,000 for all other vehicles
- Other production and sequestration credits' base amounts are formulaic and take into consideration multiple factors

Direct Pay Tax Credits

Period of Availability:

- Availability can be impacted by when the project construction begins or facilities are placed in service
- Clean Electricity Production Credit phased out over time

Payments

- ITC received as a lump sum after the project is placed into service
- Clean Electricity Production Tax Credit is paid out over time

Stacking Direct Pay Tax Credits

- Some direct pay tax credits cannot be stacked with others

Use with Tax Exempt Financing

- 15% credit reduction for five tax credits if the project was financed with tax exempt bonds



Bonus Credits: Opportunities to Increase the Value of Credits

Prevailing Wage and Apprenticeship:

- Five times the base credit

Domestic Content:

- Additional 10%

Energy Community:

- Additional 10%

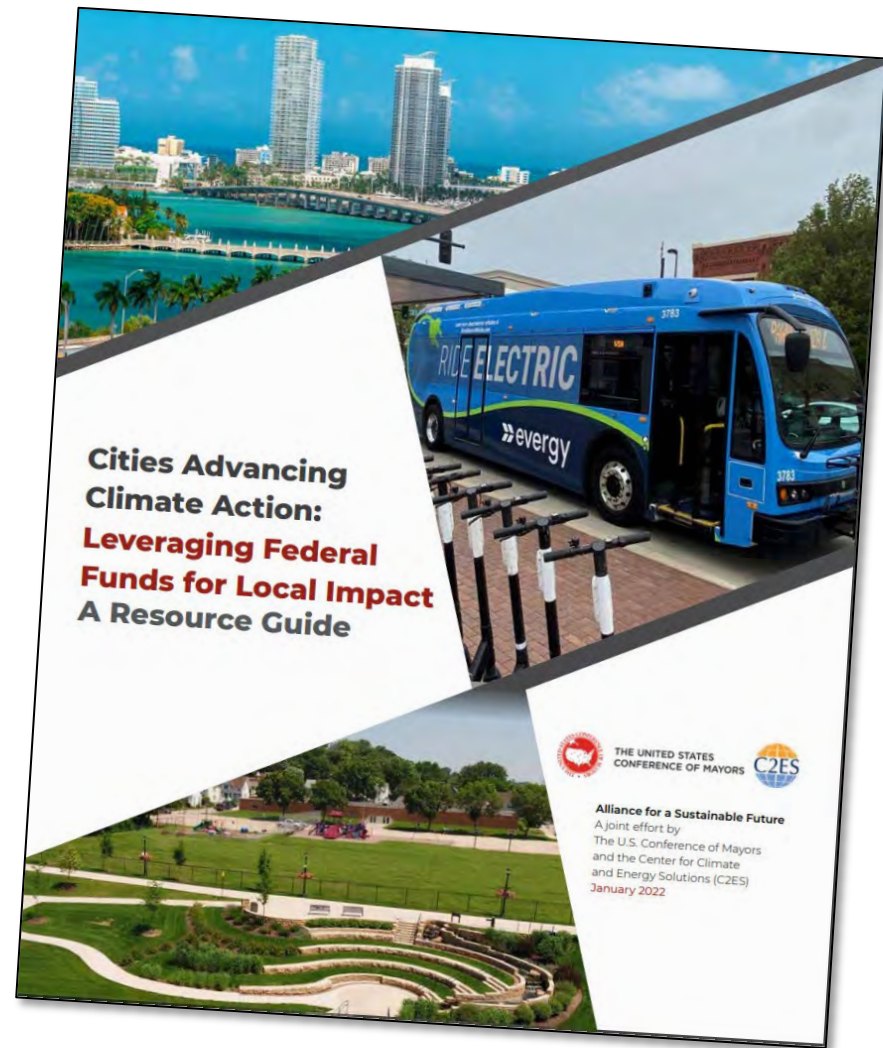
Low Income Communities:

- Additional 10% if:
 - Federally subsidized housing project
 - or
 - Qualified low-income economic benefit project

IRA Tax Credits	Bonus Rate Opportunities			
	Prevailing Wage/ Apprenticeship	Domestic Content	Energy Community	Low Income Communities
Clean Electricity				
Production Tax Credit for Electricity from Renewables	•	•	•	
ITC for Energy Property	•	•	•	•
Zero Emission Nuclear Power Production Credit	•			
Clean Electricity Production Tax Credit	•	•	•	
Clean Electricity ITC	•	•	•	•
Clean Fuels				
Clean Fuel Production Credit				
Clean Hydrogen Production Tax Credit	•			
Clean Vehicles				
Credit for Qualified Commercial Clean Vehicles				
Alternative Fuel Vehicle Refueling Property Credit	•			
Clean Energy Manufacturing				
Advanced Energy Project Credit	•			
Advanced Manufacturing Production Credit				
Clean Energy Manufacturing				
Credit for Carbon Oxide Sequestration	•			

Tax credits can be combined with other funding options

- IIJA Infrastructure Grants
- IRA Loan Guarantee Programs
- Other Federal Grants/Loans
- State-Level Programs
- Energy Rebates & Utility Incentives
- Debt Financing



Case Studies

Three Examples Based on Real-World Projects

CASE STUDY 1

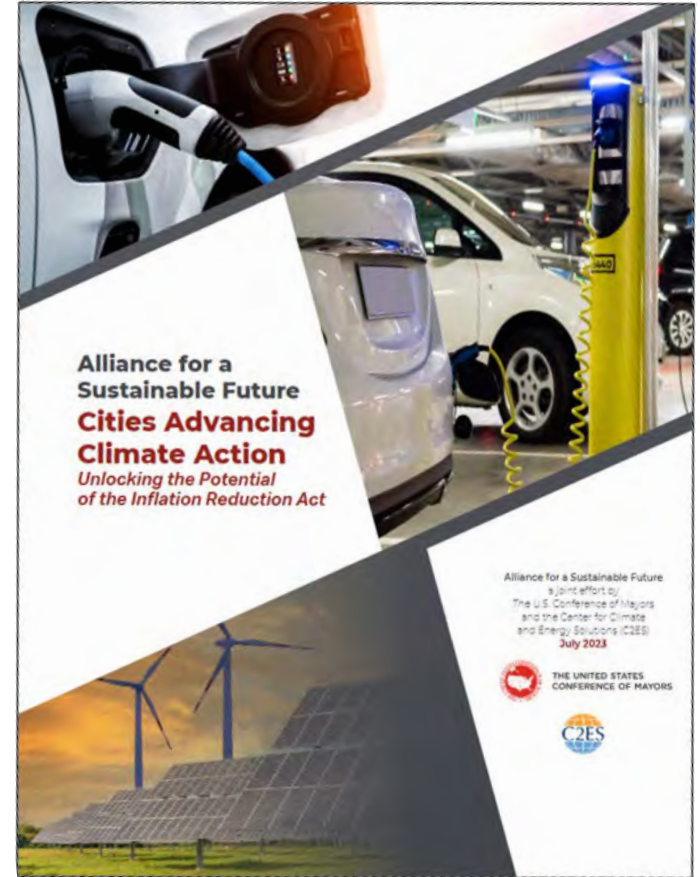
Increasing Financial Viability of a Campus Wide Microgrid

CASE STUDY 2

Reducing Costs of Carbon-Free, Resilient Power for a Wastewater Treatment Plant

CASE STUDY 3

Accelerating Fleet Decarbonization Payback Periods



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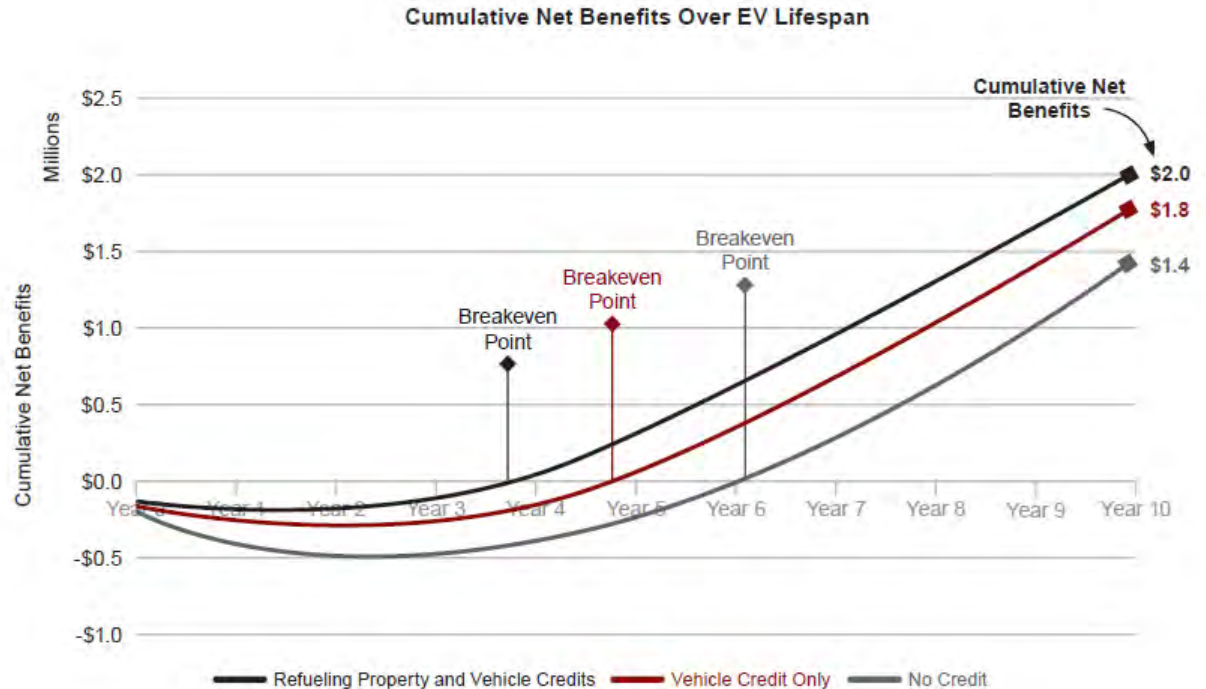


CASE STUDY 3

Accelerating Fleet Decarbonization Payback Periods

Municipal Fleet Conversion

- 100 passenger vehicle fleet
- Associated charging infrastructure
- Credits:
 - Commercial Clean Vehicles
 - Alternative Fuel Vehicle Refueling Property
- \$640,000 potential credit
- Accelerated break even point by up to two years



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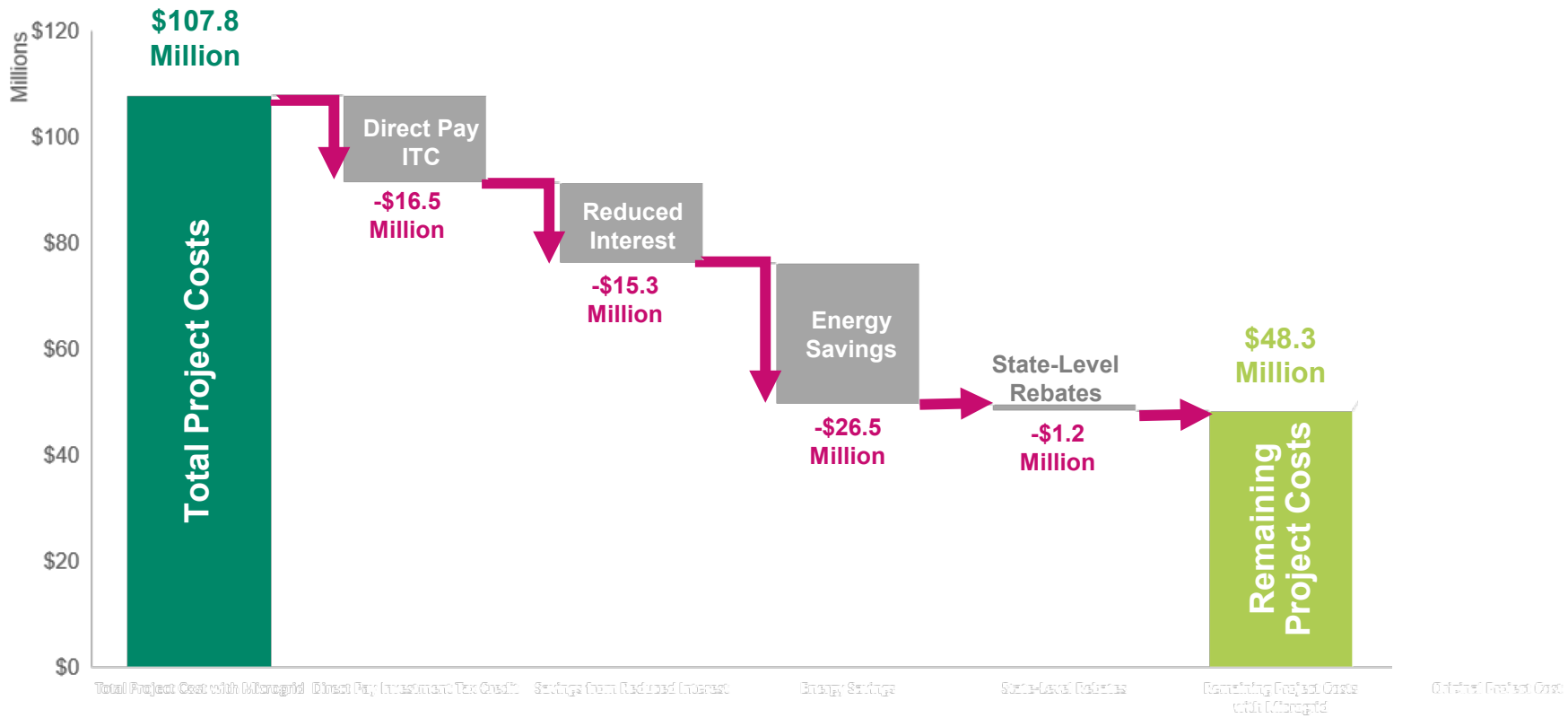
CASE STUDY 3

Accelerating Fleet Decarbonization Payback Periods



CASE STUDY 2

Reducing Costs of Carbon-Free, Resilient Power for a Wastewater Treatment Plant



Considerations for Taking Advantage of Direct Pay Tax Credits

- Consider Project Locations
- Consider Project Timelines
- Be Intentional and Explicit in Procurement to Receive Bonus Rates
- Understand Relationship of Available Tax Credit Rates and Other Project Financing
- Work Closely with Tax Counsel
- Track IRS Guidance



A Case Study: Clean Commercial Vehicles and City Capacity

- To claim credits, cities need human capacity. They need people with available capacity and expertise to claim these credits.
- Today, we are going to look the Clean Commercial Vehicle Credit—Sec. 45W, a couple of its elements, and who you need on staff to claim it.
- Let's dive in

A Case Study: Clean Commercial Vehicles and City Capacity

- First, how much can a city claim? The typical answer is \$7,500 for lighter cars and trucks and \$40,000 for larger vehicles.
- The tax code specifies a formula that gets a city to how much they claim.
- **(A)** 15 percent of the basis of such vehicle (30 percent in the case of a vehicle not powered by a gasoline or diesel internal combustion engine), or
- **(B)** the incremental cost of such vehicle.
- Do you have a staff member that can calculate the percent of the basis or do a comparison to determine incremental costs.

A Case Study: Clean Commercial Vehicles and City Capacity

- Limitations on Manufacturers—A Possible Foot Fault
- Right after this code section came out, a city told me wanted to buy a fire truck that would cost \$1.4M from a certain manufacturer. Can they buy from any electric vehicle manufacturer?
- No.
- The vendor the city wanted to buy from was not on the approved list. The city didn't know that. Buying from an unapproved vendor means no credit

A Case Study: Clean Commercial Vehicles and City Capacity

- Where does this lead:
 1. You need someone who can comfortably read the tax code. **Point:** Mistakes could be costly.
 2. You need someone in your city finance office who can, for example, calculate percent of the basis. **Question:** Can your current finance staff do this?
 3. You need a city attorney who can verify that the statute is being interpreted correctly and nothing is missed. **Point:** Mistakes could be costly.
 4. If you want to pursue Elective Pay and do not have expertise in law and tax in-house, seek outside assistance.
 5. This is a transformative program, but has to be done carefully to make sure your city isn't audited and doesn't have to pay penalties.

Next Steps

- For cities, it is going to be important to focus on the achievable based on resources and capacity level.
- Once you figure out the project or projects you want to pursue, determine whether you have the in-house capacity or need help, then go forward.
- The pre-registration portal is open now, and cities can register their projects with the IRS, a first step to claiming the credit.

Resources

- IRS [Pre-Registration Portal](#) and [Video Tutorial](#)
- EPA [Federal Tax Credits for Energy Efficiency](#)
- NLC: [Federal Funding Sources for Municipal Sustainability and Climate Action](#)
- NLC: [How Local Governments Can Use Direct Pay on Clean Energy Projects](#)
- [Local Infrastructure Hub](#) - Elective Pay Bootcamp
- [Catalyzing Local Clean Energy: A Roadmap for Maximizing Inflation Reduction Act Opportunities and Community Benefits](#)
- Alliance for a Sustainable Future: [Cities Advancing Climate Action–Leveraging Federal Funds for Local Impact](#)
- Alliance for a Sustainable Future: [Cities Advancing Climate Action–Unlocking the Potential of the Inflation Reduction Act](#)



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