

Direct Pay Tax Credits, Clean Energy Justice, and Community Impact

The Inflation Reduction Act (IRA) presents an unprecedented opportunity to drive clean energy adoption and equity through various tax credits and direct pay provisions. These resources are for nonprofits, state and local governments, and Tribal organizations to secure clean energy funding through direct pay tax credits. These credits are paid directly by the IRS, even to entities without tax liabilities—making it easier than ever to fund the clean energy projects our communities urgently need.

Key Tax Credits to Know

A selection of credits available to direct pay-eligible entities include:

- **Investment Tax Credit (ITC) (§48, §48E):** Supports investments in renewable energy technologies like solar and wind, offering up to 30% of project costs. An additional 10% bonus applies if sited in an [“energy community,”](#) which refers to communities that have historically been dependent on fossil fuel industries.
- **Low-Income Communities Bonus Credit Program (§48(e), §48E(h)):** Provides an additional 10% in bonus amounts to the ITC for renewable energy projects in low-income communities, and 20% for projects in low-income communities that provide economic benefits to residents, like community solar or rooftop solar connected to affordable housing. The IRS could pay for up to 60% of the cost of these projects.
- **Credit for qualified commercial clean vehicles (§45W):** Provides a tax credit for businesses purchasing new qualified clean vehicles. The credit is up to \$7,500 for vehicles under 14,000 pounds and up to \$40,000 for vehicles over 14,000 pounds. **Production Tax Credit (PTC) (§45, §45Y):** Rewards renewable energy production based on how much energy is generated. An additional 10% bonus applies if sited in an [“energy community.”](#)
- **Alternative Fuel Vehicle Refueling Property Credit (§30C):** Helps build EV charging and alternative fuel infrastructure in low-income communities.

[Direct Pay](#) is a new provision that expands eligibility for [many](#) of the IRA’s tax credits to tax-exempt entities such as non-profits and municipalities. So, for example, a local public school system or a network of churches could benefit from federal tax subsidies to invest in solar rooftops, battery storage for backup energy, or energy efficiency upgrades such as heat pumps and new doors and windows for public or non-profit facilities. Likewise a locality could use direct pay to help finance public EV charging stations.

These credits bring direct relief to communities, a stark contrast to tax policies under prior (and future) administrations that disproportionately favored corporate interests over working families.



Next Steps for Action:

1. **Identify Opportunities:** Determine which tax credits align with your community's needs or projects.
2. **Leverage Expert Support:** Utilize resources from L4GG and CBPP to navigate the process effectively.
 - [Lawyers for Good Government \(L4GG\)](#): Free legal assistance for navigating direct pay provisions.
 - [Center on Budget and Policy Priorities \(CBPP\)](#): Guidance for how states and advocates can maximize the impact of tax credits in underserved communities.
3. **Act Quickly:** These tax credits are time-sensitive—seize the moment.

Act Now to Secure a Clean Energy Future

Take advantage of this pivotal moment for advancing clean energy and equity. The IRA tax credits can be utilized to provide stronger, more sustainable communities if we act decisively.



Shining a light on the just path forward.
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