**IRA Elective Pay Provision Brief**

The 2022 Inflation Reduction Act (IRA) represents the possibility of major investment for Pennsylvania’s energy future with the Federal government allocating hundreds of billions of dollars nationally. Unique to the IRA through Elective Payment, IRA §6417, provisions (so-called “Direct Pay”), tax exempt entities (such as local governments and non-profits) can plan clean energy projects (solar, geothermal, etc.) and claim tax credits provided through direct cash payments from the Internal Revenue Service for eligible provisions in a process novel to the IRA.[[1]](#footnote-1) This presents local governments and non-profits with a novel opportunity to direct and control energy policy for their area or organization.

**How does this apply to you or your organization?**

Take as example a local government that wants to build a solar project to power low-income households. The project itself, if compliant with Prevailing Wage and Apprenticeship rules, is eligible for up to a 30% credit. That it takes place in or benefits a low-income community qualifies it for an additional possibility of 20%. If the project meets domestic content requirements for steel/iron and manufactured products, it’s eligible for another 10%. Much of Pennsylvania is Federally designated by the Department of Energy as an “Energy Community” for historic involvement in the mining industry (map and methodology found through DOE [HERE](https://energycommunities.gov/energy-community-tax-credit-bonus/)). Projects in Energy Communities are eligible for another 10% in credit. **In total, 70% of project costs may be eligible for IRA Elective Payment reimbursement.**

This dramatically affects weighted average cost of capital considerations **with tax credits serving as one of, if not the most, desirable forms of financing instruments**. Furthermore, this incentive toward capital investment in energy generation is intended to lower operation costs by reducing customer energy costs and/or moving them behind the meter.

IRS documents accompanying this brief offer further explanation and guidance on Elective Payment and Eligible Tax Credits. Additional and up-to-date information on IRA tax provisions can be found on the IRS’s website ([HERE](https://www.irs.gov/credits-and-deductions-under-the-inflation-reduction-act-of-2022#energy)).

1. While the purpose of this document is to inform on the novel Elective Payment instrument, much of the information described herein is applicable to private firms through traditional tax credits via the IRS. [↑](#footnote-ref-1)