

## Why do we care?

Tax-exempt and governmental entities, for the first time, can receive a payment equal to the full value of tax credits for qualifying clean energy projects [thanks to provisions in the Inflation Reduction Act \(IRA\)](#). This is known as Elective (or Direct) Pay and will allow Minnesota entities to secure funding to further progress toward [One Minnesota](#) and [Minnesota Climate Action Framework](#) goals.

### What is Elective/Direct Pay:

- Tax free cash
- Uncapped and non-competitive
- Available for select programs

### Process of Securing Elective/Direct Pay:

1. Determine whether you are an eligible entity (also known as “Applicable Entity”).
2. Understand what types of projects are eligible.
3. Understand bonus stackable credits within the IRA.
4. Project selection:
  - a. Re-evaluate projects in development to determine whether they can be adjusted to qualify for elective pay, or
  - b. Plan an eligible project that maximizes funding potential while meeting your goals
5. Find financing.
6. Complete your project and place project in service.
7. Determine your tax year to determine tax filing deadlines.
8. Gather relevant documentation for elective/direct pay filing.
9. Complete a pre-filing registration.
10. File to take election.
11. Receive payment after submission is approved.



## Technical Assistance and Resources Available for Elective Pay Project Development and Filings:

1. [Determine whether you are an eligible entity \(also known as “Applicable Entity”\)](#).
  - a. Tax exempt orgs: 501(a), including 501(c) and 501(d) organizations.
  - b. States or political subdivisions (agencies, public ed., local governments, port authorities, public libraries, etc.)
  - c. Agents and instrumentalities of the state (utilities, e.g.)
  - d. Tribal governments
  - e. Rural co-ops (engaging in providing electricity in rural areas)
  - f. NOTE: partnerships are not applicable entities, although joint or tenancy in common ownership models may allow an effective (not legal) partnership.

2. Understand what types of projects are eligible.
  - a. [Types of projects](#):
    - i. [Provide list](#)
  - b. [Was the program put into service on or after 2023?](#)
  - c. [Do you own the project?](#) (Slides 11-12)
3. [Understand bonus stackable credits within the IRA](#) (slide 14)
  - a. Base credit
    - i. [Prevailing wage](#) and [apprenticeship requirements](#) need to be [met](#).
  - b. Must meet [domestic content requirements](#) for production tax credits (PTC) and investment tax credits (ITC) – in 2024 and 2025, failure to meet domestic content requirements results in lower credit eligibility. In 2026 and beyond, failure to meet domestic content requirements renders you ineligible for elective pay.
    - i. Waivers possible – if domestic content inclusion increases price by 25%+ or content unavailable.
    - ii. Does not apply to EV credits, green hydrogen, manufacturing, etc.
  - c. [Energy community](#) (Map [here](#))
  - d. [Tribal or low income](#) (Map [here](#))
    - i. Separate application – 10-20% bonus credit
    - ii. Can (must?) apply in advance of placing project into service
    - iii. Look up guidance from Clean Energy States Alliance or Linklaters (ref L4GG)

\*Additional good overview of bonuses with descriptions [here](#). (page 6).

4. Project Selection:
  - a. Re-evaluate projects in development to determine whether they can be adjusted to qualify for elective pay
  - b. Plan an eligible project that maximizes funding potential while meeting your goals
5. Find financing
  - a. Can stack elective pay with other financing, but elective pay amount will be adjusted down so that you do not exceed 100% of the project cost.
  - b. Need to both cover gap (elective pay, at its best, covers 70% of a project cost) and need bridge financing to carry you until you receive payment from the IRS (estimates are 12-18 months).
6. Complete your project and place project in service
7. Determine your tax year to determine tax filing deadlines.
8. Gather relevant documentation for elective pay filing (e.g. VIN numbers for each EV purchased)
9. Complete a [pre-filing registration](#) ([Resource list](#) and [pre-filing walk through](#))
  - a. Receive registration ID for each eligible property
10. [File](#) (Tax [Forms](#) & [filing process slides](#))
  - a. A 990-T is the form for entities that are not required to ordinarily file tax returns
  - b. Form 3800 with registration IDs for each property
11. Receive payment after submission is approved

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## General resources

1. Lawyers for Good Government have an [FAQ](#) about elective pay in the IRA. If your question is not answered there, you can ask them your question directly.
2. [Technical Assistance - S2 Strategies Home](#)
3. [Congressional Progressive Caucus Center \(CPCC\)](#) has portals through which you can request assistance with filings, etc.
4. Elective Pay Overviews from [Lawyers for Good Government](#) & [Congressional Progressive Caucus Center](#). Good example timeline for a solar project on [slide 33 of Elective Pay Deck](#) (Aug. 2023 webinar) from Lawyers for Good Government's Climate Change Resources page.
5. [Direct Pay "Master Resources List"](#) (extremely comprehensive) - CPCC
6. Guide to the [IRA for Cities - American Cities Climate Challenge Renewables Accelerator](#)
7. [5 Tips for Leveraging the IRA's Direct Pay Provision to Maximize the Benefits of Clean Energy Investment - World Resources Institute \(WRI\)](#)
8. IRS Direct Pay Portal [walk through](#) - Center for Public Enterprise
9. Overview of [Direct Pay programs - CPCC](#)
10. Example of [elective pay model - Center for Public Enterprise](#)
11. Tips for the [IRA elective pay provision - Government Finance Officers Association](#)
12. Role of states in [unlocking direct pay](#) - The Center for American Progress
13. Good examples of [direct pay projects - CPCC](#)