IRS

Clean Energy Tax Incentives for Businesses

The Inflation Reduction Act of 2022 ("IRA") makes several clean energy tax credits available to businesses.

IRS.gov/CleanEnergy

	Tax Provision	Description
Energy Generation & Carbon Capture	**Production Tax Credit for Electricity from Renewables** (§ 45, pre-2025)	**For electricity sold to an unrelated person and produced from the following renewable sources:** wind, biomass, geothermal, solar, landfill and trash, hydropower, and marine and hydrokinetic energy. **Credit Amount (for 2023):** 0.55 or 0.03 cents (depending on source) per kilowatt hour (kW) for facilities placed in service (PIS) after 12/31/21; 2.8 or 1.4 cents (depending on source) per kW for facilities PIS before 1/1/22; 0.55 cents per kW for marine and hydrokinetic for facilities PIS after 12/31/22. [1,2,3,7]
Energy Generation & Carbon Capture	**Clean Electricity Production Tax Credit** (§ 45Y, 2025 onwards)	**Technology-neutral tax credit for production of clean electricity.** Replaces § 45 for facilities that are placed in service after December 31, 2024. **Credit Amount:** 0.3 cents/kWh; 1.5 cent/kWh if PWA requirements are met. [1,2,3,6,7]
Energy Generation & Carbon Capture	**Investment Tax Credit for Energy Property** (§ 48, pre-2025)	**For investment in renewable energy projects** including fuel cell, solar, geothermal, small wind, energy storage, biogas, microgrid controllers, and combined heat and power properties. **Credit Amount:** Generally, 6% of qualified investment (basis); 30% if PWA requirements are met. [1,4,5,6,8]
Energy Generation & Carbon Capture	**Clean Electricity Investment Tax Credit** (§ 48E, 2025 *onwards*)	**Technology-neutral tax credit for investment in facilities that generate clean electricity** and qualified energy storage technologies. Replaces § 48 for facilities that begin construction and are placed in service after 2024 **Credit Amount:** 6% of qualified investment (basis); 30% if PWA requirements met [1,4,5,6]
Energy Generation & Carbon Capture	**Low-Income Communities Bonus Credit** (§ 48(e), 48E(h)) **Application required**	**Additional investment tax credit for small-scale solar and wind (§ 48(e)) or clean electricity (§48E(h)) facilities** (<5MW net output) on Indian land, federally subsidized housing, in low-income communities, and benefit low-income households. Allocated through an application process. **Credit Amount:** 10 or 20 percentage point increase on base investment tax credit
Energy Generation & Carbon Capture	**Credit for Carbon Oxide Sequestration** (§ 45Q)	**Credit for carbon oxide sequestration** coupled with permitted end uses in the United States. **Credit Amount:** $12-36 per metric ton of qualified carbon oxide captured and sequestered, used as a tertiary injectant, or utilized, depending on the specified end-use; $60-$180 per metric ton if PWA requirements met. [1,7]
Energy Generation & Carbon Capture	**Zero-Emission Nuclear Power Production Credit** (§ 45U)	**For electricity from nuclear power facilities.** Facilities in operation prior to August 16, 2022. **Credit Amount (for 2023):** 0.3 cents/kWh (reduced rate for larger facilities); 1.5 cent/kWh if PW requirements met [1,7]
Clean Vehicles	**Credit for Qualified Commercial Clean Vehicles** (§ 45W)	**For purchasers of commercial clean vehicles.** Qualifying vehicles may include passenger vehicles, buses, ambulances, and certain other vehicles, as well as certain mobile machinery. **Credit Amount:** Up to $40,000 (max $7,500 for vehicles <14,000 lbs.)
Manufacturing	**Advanced Energy Project Credit** (§ 48C) **Application required**	**For investments in advanced energy projects.** A total of $10 billion will be allocated, not less than $4 billion of which will be allocated to projects in certain energy communities. **Credit Amount:** 6% of taxpayer's qualified investment; 30% if PWA requirements are met. [1]
Manufacturing	**Advanced Manufacturing Production Credit** (§ 45X)	**Production tax credit for domestic clean energy manufacturing** of components including solar and wind energy, inverters, battery components, and critical minerals. **Credit Amount:** Varies by type of eligible component
Commercial Energy	**New Energy Efficient Homes Credit** (§ 45L)	**Provides a tax credit for construction of new energy efficient homes Credit Amount:** $2,500 for new homes meeting Energy Star standards; $5,000 for certified zeroenergy ready homes. For multifamily, base amounts are $500 per unit for Energy Star and $1000 per unit for zero-energy
Commercial Energy	**Energy Efficient Commercial Buildings Deduction** (§ 179D)	**Provides a tax deduction for the cost of energy efficiency improvements to commercial buildings,** installed as part of the building envelope; interior lighting systems; or the heating, cooling, ventilation, and hot water systems. **Maximum Deduction Amount:** $0.50-$1 per square foot, depending on increase in efficiency, with deduction over three or four-year periods capped at $1 per square foot. Inflation adjusted. A new alternative deduction for energy efficient building retrofit property is also available.

Fuels

Clean Hydrogen Production Tax Credit (§ 45V)	**For producing qualified clean hydrogen** at a qualified clean hydrogen production facility during the 10-year period beginning on the date the facility was originally placed in service. **Credit Amount:** \$0.60/kg multiplied by the applicable percentage (20% to 100%, depending on lifecycle greenhouse gas emissions rate), amount increases if PWA is met [1,7]
Clean Fuel Production Credit (§ 45Z, 2025 onwards)	**Technology neutral tax credit for domestic production of clean transportation fuels,** including sustainable aviation fuels, beginning in 2025* **Credit Amount:** \$0.20/gallon (\$0.35/gal for aviation fuel) multiplied by CO2 "emissions factor"; \$1.00/gallon (\$1.75/gal for aviation fuel) multiplied by CO2 "emissions factor" if PWA is met. [1,7]
Biofuels Incentives (§ 40A)	**Extends tax credits for biodiesel and renewable diesel.** **Credit Amount:** \$1.00/gallon for biodiesel and renewable diesel; \$1.00 per gallon of biodiesel or renewable diesel used in a qualified mixture. Additional \$0.10/gallon credit available for small Agri-biodiesel producers. In addition, there is a \$1.00/gallon excise tax credit for biodiesel and renewable diesel mixtures.
Biofuels Incentives (§ 40(b)(6)	**Retroactively extends second generation biofuel producer credit.** This credit previously expired on 12/31/21. The IRA extends this credit for production through 12/31/24. **Credit Amount:** \$1.01 per gallon of second-generation biofuel, with a reduction for second generation biofuel that is alcohol.
Alternative Fuel and Alternative Fuel Mixture Excise Tax Credits (§§ 6426(d) and (e) and 6427(e))	**Retroactively extends alternative fuel and alternative fuel mixture credits.** The credits previously expired on 12/31/21. The IRA extends these credits through 12/31/24. **Credit Amounts:** \$0.50 per gallon of alternative fuel sold or used (§ 6426(d)); \$0.50 per gallon of alternative fuel used in producing any alternative fuel mixture for sale or use in a trade or business (§ 6426(e)).
Sustainable Aviation Fuel Credit (§ 40B)	**Provides a tax credit for the sale or use of sustainable aviation fuel (SAF)** that achieves a lifecycle greenhouse gas emissions re duction of at least 50% as compared with petroleum-based jet fuel. **Credit Amount:** \$1.25/gallon of SAF. **Bonus Credit Amount:** Up to \$0.50/gallon depending on lifecycle greenhouse gas emissions of SAF relative to petroleum-based jet fuel.

Notes:

The information in this document may be subject to change as guidance is issued or finalized. For all IRA clean energy tax credits, please see **IRS.gov/CleanEnergy** for further details and eligibility requirements.

[1] Credit is multiplied by 5 for projects that meet prevailing wages and apprenticeship requirements or other requirements under § 45(b)(6)(B). Apprenticeship requirements do not apply for §§ 45L and 45U. Under the one megawatt exception for the credits available under sections 45, 45Y, 48, and 48E, a facility that has a maximum net output of less than one megawatt of electrical energy (as measured in alternating current) may be eligible for the increased credit amount without satisfying the prevailing wage and apprenticeship requirements. The one-megawatt exception may also apply to qualified projects under section 48 with a maximum net output of less than one megawatt of thermal energy; and to energy storage technology under section 48E with a capacity of less than one-megawatt.

[2] Credit is increased by 10% if the project meets certain domestic content requirements.

[3] Credit is increased by 10% if the project is located in an energy community.

[4] Credit is increased by up to 10 percentage points for projects meeting certain domestic content requirements for steel or iron, and manufactured products.

[5] Credit is increased by up to 10 percentage points if located in an energy community.

[6] Section 168(e) provides favorable depreciation treatment for facilities or property qualifying for this tax credit. These facilities or property will be treated as a 5-year property for purposes of cost recovery, leaving them with lower taxable income in the earlier years of a clean energy investment.

[7] Credit is adjusted annually for inflation.

[8] See section 48 for more detail and applicable exceptions to the credit rate.

Elective Pay Overview

What is elective pay?

Elective pay allows applicable entities, including tax-exempt and governmental entities that would otherwise be unable to claim certain credits because they do not owe federal income tax, to benefit from some clean energy tax credits. By choosing this election, the amount of the credit is treated as a payment of tax and any overpayment will result in a refund.

For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, as long as it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Who is eligible?

Applicable entities can use elective pay. Applicable entities include tax-exempt organizations, states and political subdivisions such as local governments, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, rural electric cooperatives, U.S. territories and their political subdivisions, and agencies and instrumentalities of state, local, tribal and U.S. territorial governments.

What types of businesses are eligible?

Generally, only "applicable entities" are eligible for elective pay. However, there are special rules for three of the clean energy tax credits. Specifically, other taxpayers that are not "applicable entities" may make an election to be treated as an applicable entity for elective pay with respect to the applicable credit property giving rise to

1. The section 45Q credit (credit for carbon oxide sequestration),
2. The section 45V credit (credit for production of clean hydrogen), or
3. The section 45X credit (advanced manufacturing production credit).

There are additional rules if the taxpayer is a partnership or S Corporation.

How do I make the elective payment election?

Eligible entities would claim and receive an elective payment by making an elective payment election on their annual tax return along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is strongly encouraged.

What will I need to do to receive a payment?

1. **Identify and pursue the qualifying project or activity:** You will need to know what applicable credit you intend to earn and use elective pay for.
2. **Determine your tax year, if not already known:** Your tax year will determine the due date for your tax return.
3. **Placed in service:** The applicable credit property must be placed in service BEFORE a registration number will be issued.
4. **Complete pre-filing registration with the IRS:** This will include providing information about yourself, which applicable credits you intend to earn, and each eligible project/property that will contribute to the applicable credit and other information required. Upon completing this process, the IRS will provide you with a registration number for each applicable credit property. You will need to provide that registration number on your tax return as part of making the elective pay election.
   - Complete pre-filing registration in sufficient time to have a valid registration number at the time you file your tax return.
5. **Satisfy all eligibility requirements for the tax credit and any applicable bonus credits, if applicable, for a given tax year:**
   - You will need the documentation necessary to properly substantiate any underlying tax credit, including if bonus amounts increased the credit.
6. **File the required annual tax return by the due date (or extended due date) and make a valid elective payment election.**

What tax credits can elective pay be used for?

See **Publication 5817g** for a list of tax credits that can be used for elective pay.

Resources

- **Elective Pay and Transferability**
- **irs.gov/cleanenergy**
- **Publication 5884,** IRA and CHIPS Pre-Filing Registration Tool User Guide
- **Publication 5902,** Clean Energy Authorization Permission Management User Guide

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Tax-Exempt Organizations

What is elective pay?

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For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, if it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Are tax-exempt organizations eligible?

Any organization described in sections 501 through 530 of the Code that meets the requirements to be recognized as exempt from tax under those sections is an applicable entity eligible to make an elective payment election. This would include all organizations described in § 501(c), such as public charities, private foundations, social welfare organizations, labor organizations, business leagues and others. It also includes homeowners organizations under § 528.

How do I make the elective payment election?

Eligible entities would claim and receive an elective payment by making an **elective payment election** on Form 990-T along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is required.

What will I need to do to receive a payment?

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FACT SHEET

Inflation Reduction Act Prevailing Wage and Apprenticeship Requirements

What are the Prevailing Wage and Registered Apprenticeship (PWA) requirements?

The Inflation Reduction Act's Prevailing Wage and Apprenticeship (PWA) provisions increase the amount of important tax credits for clean energy projects fivefold.

To be eligible for the increased tax credit, taxpayers (including project developers) claiming the increased tax credit are generally required to:

Pay prevailing wages

In general, laborers and mechanics (such as electricians or carpenters) employed in the construction, alteration, or repair of the facility, property, project, or equipment must be paid wages at rates at or above the prevailing wage rates. Prevailing wage rates are set by the Department of Labor for specific classifications of laborer or mechanic where the work is being performed.

Employ apprentices

During construction, employers generally must meet requirements to employ sufficient apprentices from a registered apprenticeship program.

Ensure all contractors and sub-contractors meet all requirements

The requirements to pay at least prevailing wages and meet apprenticeship requirements generally apply to all construction, alteration or repair work including work by contractors and subcontractors.

Keep adequate books and records

Taxpayers must keep books and records to document compliance with the PWA requirements. The IRS will request to review these books and records, along with other information, in an audit.

If you suspect that PWA increased tax credits are being claimed for a project that isn't meeting these requirements, you can report the suspected tax violation to the IRS using Form 3949-A, Information Referral.

To complete the form, visit: Form 3949-A or type irs.gov/3949a in your web browser. Indicate "PWA" in the "Comments" field, and provide as much specific information as possible, including the address of the job site at which the construction took place. The IRS takes referrals of alleged tax law violations seriously and considers all relevant information on any applicable audit.

For more information, visit irs.gov/pwafaqs.

The IRS does not provide tax advice for specific situations. You may want to consult a tax advisor.

The Taxpayer First Act protects employees who report or assist in an investigation regarding underpayment of taxes or any conduct which the employee reasonably believes constitutes a violation of internal revenue laws or any provision of Federal law relating to tax fraud.

U.S. Territorial Governments

What is elective pay?

Elective pay allows applicable entities, including tax-exempt and governmental entities that would otherwise be unable to claim certain credits because they do not owe federal income tax, to benefit from some clean energy tax credits. By choosing this election, the amount of the credit is treated as a payment of tax and any overpayment will result in a refund.

For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, if it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Are territories eligible?

Yes. U.S. territory governments, their political subdivisions, and their agencies and instrumentalities are eligible for elective payment.

There are tax rules relating to the investment-related tax credits (that is, section 30C, 45W, 48, 48C, and 48E credits) that generally provide that credit-eligible property cannot be used predominantly outside the United States (the fifty states and the District of Columbia) unless the property is owned by a US corporation or US citizen (other than a citizen entitled to the benefits of section 931 (Guam, American Samoa, or the Northern Mariana Islands) or section 933 (Puerto Rico)). Therefore, property used in the territories and owned by a territory government, or an entity created in or organized under the laws of a U.S. territory, generally would not qualify for sections 30C, 45W, 48, 48C and 48E. However, these restrictions do not apply to the production credits eligible for elective pay (sections 45, 45Q, 45U, 45V, 45X, 45Y and 45Z).

How do I make the elective payment election?

Eligible U.S. territory governments, their political subdivisions, and their agencies and instrumentalities should file Form 990-T, along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is strongly encouraged.

What will I need to do to receive a payment?

1. **Identify and pursue the qualifying project or activity:** You will need to know what applicable credit you intend to earn and use elective pay for.
2. **Determine your tax year, if not already known:** Your tax year will determine the due date for your tax return.
3. **Placed in service:** The applicable credit property must be placed in service BEFORE a registration number will be issued.
4. **Complete pre-filing registration with the IRS:** This will include providing information about yourself, which applicable credits you intend to earn, and each eligible project/property that will contribute to the applicable credit and other information required. Upon completing this process, the IRS will provide you with a registration number for each applicable credit property. You will need to provide that registration number on your tax return as part of making the elective pay election.
   - Complete pre-filing registration in sufficient time to have a valid registration number at the time you file your tax return.
5. **Satisfy all eligibility requirements for the tax credit and any applicable bonus credits, if applicable, for a given tax year:**
   - You will need the documentation necessary to properly substantiate any underlying tax credit, including if bonus amounts increased the credit.
6. **File the required annual tax return by the due date (or extended due date) and make a valid elective payment election.**

What tax credits can elective pay be used for?

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Department of the Treasury **Internal Revenue Service** www.irs.gov

Rural Electric Cooperatives

What is elective pay?

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For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, if it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Are rural electric cooperatives eligible?

Yes. Any corporation operating on a cooperative basis that is engaged in furnishing electric energy to persons in rural areas is eligible. A rural electric cooperative's use of elective pay does not affect the 85% income test of a tax-exempt electric cooperative.

Tax exempt rural electric cooperatives are eligible to use elective pay for all 12 credits listed in the link below. Those that are not tax exempt may use elective pay for each of the credits listed except for the Commercial Clean Vehicles credit (45W).

How do I make the elective payment election?

Eligible entities would claim and receive an elective payment by making an **elective payment election** on their annual tax return along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

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State & Local Governments

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Are state and local governments eligible?

Yes. States, political subdivisions and their agencies and instrumentalities are all eligible for elective pay. This includes the District of Columbia. It also includes cities, counties and other political subdivisions. Water districts, school districts, economic development agencies, public universities and hospitals that are agencies and instrumentalities of states or political subdivisions are also included.

How do I make the elective payment election?

Eligible entities not normally required to file an annual tax return with the IRS should file Form 990-T along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is strongly encouraged.

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