

# IRA Tax Incentives for Businesses, Local Governments and Nonprofits

## In this document:

- I. Overview of Tax Strategies
- II. Sections that detail what tax incentives are best suited for specific groups: (A) Businesses, (B) Tax-exempt entities such as nonprofits and local governments, and (C) Consumer eligible tax credits that local governments can promote among their constituents.
- III. Explainers for Tax Credit Bonuses
- IV. EPA Competitive Grants
- V. Helpful Resources

## Part I: Tax Strategies

### Tax Incentives

Tax incentives are potentially the largest source of support for clean industrial deployment because most tax credits are uncapped, meaning they can scale with uptake. Additional features like direct pay and credit transferability increase the flexibility of credits, enabling more projects to maximize the benefit of the credits to their business model.

### Direct Pay

The Inflation Reduction Act's "elective pay" (often called "direct pay") provisions, makes certain clean energy tax credits effectively refundable. With elective pay, an eligible -entity (such as a local government) that qualifies for a clean-energy investment tax credit can notify the IRS of their intent to claim the credit and file an annual tax return to claim elective pay for the full value of the credit once the project is placed in service. The IRS would then pay the local government the value of the credit. [See here for more information.](#)

### Credit Transferability


This allows entities that qualify for a tax credit but are not eligible to use elective pay to transfer all or a portion of the credit to a third-party buyer in exchange for cash. The buyer and seller would negotiate and agree to the terms and pricing. The transferer must complete electronic pre-filing registration, place the project in service, then provide the transferee with the registration number and all other information necessary to claim the transferred eligible credit. Then, the transferer must complete a transfer election statement with the transferee and indicate the eligible tax credit was transferred to a third party in their tax return.

## Part II: Tax credits by group






### **A. Businesses**

All the credits in this section have a prevailing wage and apprenticeship bonus<sup>1\*</sup>, unless otherwise specified. If prevailing wage and apprenticeship requirements aren't met, the credit amounts listed will be divided by 5. For example, the ITC goes down to 6%.






\* Bullets with superscripts have detailed notes in the "Explainers" section in part III.

Program	Sector(s)	Description	Transferability	Notes
<a href="#">Clean Electricity Investment Tax Credit – ITC (48 or 48E after 2025)</a>		Credit for clean energy generation	Yes	<ul style="list-style-type: none"> <li>• The ITC is a one-time payment based on the cost to put the project in service.</li> <li>• The base ITC is 30%.</li> <li>• +10% adder if using domestic content<sup>2</sup></li> </ul>

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				<ul style="list-style-type: none"> <li>+10% adder if in an energy community<sup>3</sup></li> <li>+10% adder for projects in low income or tribal communities OR +20% adder for projects financially benefiting low income or tribal communities.<sup>4</sup> This adder is capped at 1.8 GW per year and requires applying through a competitive process.</li> <li>Importantly, projects may claim <b>either</b> the ITC or the PTC, but not both.</li> </ul>
<a href="#">Clean Electricity Production Tax Credit - PTC (45 or 45Y after 2025)</a>		Credit for clean energy generation	Yes	<ul style="list-style-type: none"> <li>Entities will receive annual payments from the PTC over a 10-year period based on the rate of production.</li> <li>The base PTC is \$27.5/MWh.</li> <li>+\$2.75/MWh adder if using domestic content<sup>2</sup></li> <li>+\$2.75/MWh adder if in an energy community<sup>3</sup></li> <li>The credit value is adjusted for inflation.</li> </ul>
<a href="#">Carbon Oxide Sequestration Credit (45Q)</a>		Credit for Carbon Capture, Utilization, and Storage (CCUS) and Direct Air Capture (DAC) Projects	Yes	<ul style="list-style-type: none"> <li>\$85/ton for carbon captured and stored</li> <li>\$60/ton for carbon captured and utilized</li> <li>\$180/ton for direct air capture and storage</li> <li>\$130/ton for DAC that's captured and utilized</li> </ul>
<a href="#">Clean Hydrogen Production Tax Credit (45V)</a>		Credit for production of low-carbon hydrogen	Yes	<ul style="list-style-type: none"> <li>\$30/kg of clean hydrogen produced multiplied by the applicable percentage</li> <li>The applicable percentage ranges from 20% to 100% depending on lifecycle greenhouse gas emissions.</li> <li>The credit value is adjusted for inflation.</li> </ul>
<a href="#">Advanced Energy Project Tax Credit (48C)</a>		Retrofitting existing facilities for clean energy manufacturing, recycling and critical materials refining, and reducing GHG emissions at industrial facilities	Yes	<ul style="list-style-type: none"> <li>The ITC is a one-time payment based on 30% the cost to put the project in service.</li> <li>This is a capped tax credit, with \$10 billion available. \$4 billion of this allocation will be set aside for projects in designated energy communities. It requires applying through a competitive process.</li> </ul>
<a href="#">Clean Fuel Production Credit (45Z)</a>		Production of clean transportation fuels, including aviation fuels; replaces 40B Sustainable Aviation Fuel	Yes	<ul style="list-style-type: none"> <li>\$1/gallon for non-aviation fuel multiplied by the carbon dioxide "emissions factor" of the fuel</li> <li>\$1.75/gallon for aviation fuel multiplied by the carbon dioxide "emissions factor" of the fuel</li> <li>Both are inflation adjusted after 2024.</li> <li>This credit is available for fuel produced after 12/31/24 and used or sold before 12/31/27.</li> </ul>

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		(SAF) Credit in 2025		
<a href="#">Commercial Clean Vehicle Credit (45W)</a>	 Transport	Purchase a clean vehicle for business purposes, not for resale	Yes	<ul style="list-style-type: none"> <li>The amount of the credit is the lesser of               <ul style="list-style-type: none"> <li>15% of the vehicle's cost to the purchaser or 30% for vehicles without internal combustion engines, OR</li> <li>The amount the purchase price exceeds the price of a comparable internal combustion vehicle.</li> </ul> </li> <li>The credit is capped at \$7,500 for vehicles that weight less than 14,000 lbs and \$40,000 for vehicles more than 14,000 lbs</li> <li>This credit does not have prevailing wage and apprenticeship requirements or the same battery requirements as the personal EV credit.</li> </ul>
<a href="#">Alternative Fuel Vehicle Refueling Property Credit (30C)</a>	 Transport	Credit for alternative fuel (i.e. electric vehicle) chargers	Yes	<ul style="list-style-type: none"> <li>30% investment tax credit, up to \$100,000 per charger for businesses</li> <li>Property must be in a low-income <b>or</b> rural area.</li> </ul>
<a href="#">New Energy Efficient Homes Credit (45L)</a>	 Buildings	Provides a tax credit for construction of new energy efficient homes	No	<ul style="list-style-type: none"> <li>\$2,500 for homes meeting EPA's Energy Star standards</li> <li>\$5,000 for homes meeting DOE Zero Energy Ready Homes standards</li> </ul>
<a href="#">Advanced Manufacturing Production Credit (45X)</a>	 Industry	Provides a production tax credit for domestic manufacturing of components for solar and wind energy, inverters, battery components, and critical minerals.	Yes	<ul style="list-style-type: none"> <li>Provides a tax credit for each eligible unit manufactured. Credit rates vary depending on the component, with some rates depending on the cost of production and others based on certain capacity factors.</li> <li>Eligible components include components within wind, solar, and battery projects, such as PV cells, PV wafers, solar modules, blades, nacelles, inverters, and battery cells and modules, among many others.</li> <li>Cannot be stacked with 48C (manufacturing investment tax credit)</li> </ul>
<a href="#">Energy Efficient Commercial Buildings Deduction (179D)</a>	 Buildings	Provides a tax deduction for energy efficiency improvements to commercial buildings, such as improvements to interior	No, unless the business is a non-taxable entity	<ul style="list-style-type: none"> <li>Deductions over four-year periods for reducing energy use intensity of new and existing commercial buildings</li> <li>Properties must achieve at least a 25% reduction in energy use intensity to receive the minimum of \$2.50/sq ft. deduction. With each additional percent reduced, they receive a \$0.10/sq ft. deduction, up to a max of \$5/sq ft.</li> </ul>

		lighting; heating, cooling, ventilation, and hot water; and building envelope.		
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## B. Tax-Exempt Entities

All the credits in this section have a prevailing wage and apprenticeship bonus<sup>1</sup>, unless otherwise specified. If prevailing wage and apprenticeship requirements aren't met, the credit amounts listed will be divided by 5.

\* Bullets with superscripts have detailed notes in the "Explainers" section in part III.




Program	Sector(s)	Description	Direct Pay	Notes
<a href="#">Clean Electricity Investment Tax Credit – ITC (48 or 48E after 2025)</a>	 Electricity	Credit for clean energy generation	Yes	<ul style="list-style-type: none"> <li>The ITC is a one-time payment based on the cost to put the project in service.</li> <li>The base ITC is 30%.</li> <li>+10% adder if using domestic content<sup>2</sup></li> <li>+10% adder if in an energy community<sup>3</sup></li> <li>+10% adder for projects in low income or tribal communities OR +20% adder for projects financially benefiting low income or tribal communities.<sup>4</sup> This adder is capped at 1.8 GW per year and requires applying through a competitive process.</li> <li>Importantly, projects may claim <b>either</b> the ITC or the PTC, but not both.</li> </ul>
<a href="#">Clean Electricity Production Tax Credit - PTC (45 or 45Y after 2025)</a>	 Electricity	Credit for clean energy generation	Yes	<ul style="list-style-type: none"> <li>Entities will receive annual payments from the PTC over a 10-year period based on the rate of production.</li> <li>The base PTC is \$27.5/MWh.</li> <li>+\$2.75/MWh adder if using domestic content<sup>2</sup></li> <li>+\$2.75/MWh adder if in an energy community<sup>3</sup></li> <li>The credit value is adjusted for inflation.</li> </ul>
<a href="#">Commercial Clean Vehicle Credit (45W)</a>	 Transport	Purchase a clean vehicle for business purposes, not for resale	Yes	<ul style="list-style-type: none"> <li>The amount of the credit is the lesser of <ul style="list-style-type: none"> <li>15% of the vehicle's cost to the purchaser or 30% for vehicles without internal combustion engines, OR</li> <li>the amount the purchase price exceeds the price of a comparable internal combustion vehicle.</li> </ul> </li> <li>The credit is capped at \$7,500 for vehicles less than 14,000 lbs and \$40,000 for vehicles more than 14,000 lbs.</li> <li>This credit does not have prevailing wage and apprenticeship requirements or the same battery requirements as the personal EV credit.</li> </ul>


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<a href="#">Alternative Fuel Vehicle Refueling Property Credit (30C)</a>	 <p>Transport</p>	Credit for alternative fuel (i.e. electric vehicle) chargers	Yes	<ul style="list-style-type: none"> <li>• 30% investment tax credit, up to \$100,000 per charger for businesses</li> <li>• Property must be in a low-income <b>or</b> rural area.</li> </ul>
<a href="#">Energy Efficient Commercial Buildings Deduction (179D)</a>	 <p>Buildings</p>	Tax deduction for energy efficiency improvements to commercial buildings, such as improvements to interior lighting; heating, cooling, ventilation, and hot water; and building envelope.	No, but eligible to transfer deduction to designer	<ul style="list-style-type: none"> <li>• Deductions over four-year periods for reducing energy use intensity of new and existing commercial buildings</li> <li>• Properties must achieve at least a 25% reduction in energy use intensity to receive the minimum of \$2.50/sq ft. deduction. With each additional percent reduced, they receive a \$0.10/sq ft. deduction, up to a max of \$5/sq ft.</li> </ul>

## C. Consumer Eligible Tax Credits

State and local governments should be aware of these to encourage and support their constituents to adopt these tax credits and make sure their local incentives complement them. Importantly, individual consumer tax credits are not direct pay, meaning it is difficult for low-income communities to access due to limited tax liability.

Program	Sector(s)	Description	Notes
<a href="#">Clean Vehicle Credit (30D)</a>	 <p>Transport</p>	Credit for purchasers of new clean vehicles	<ul style="list-style-type: none"> <li>• \$3,750 credit for vehicles meeting critical minerals requirements, and additional \$3,750 credit for vehicles meeting battery component manufacturing requirement.</li> <li>• Requires final assembly in North America to receive credit.</li> <li>• Can be transferred to dealership starting in 2024</li> <li>• Has income and MSRP limits to qualify</li> </ul>
<a href="#">Credit for Previously-Owned Clean Vehicles (25E)</a>	 <p>Transport</p>	Credit for purchasers of pre-owned clean vehicles	<ul style="list-style-type: none"> <li>• The lesser of \$4,000 or 30% of sale price</li> <li>• Can be transferred to dealership at point of sale starting in 2024</li> <li>• Has income and sale price limits to qualify</li> </ul>
<a href="#">Energy Efficient Home Improvement Credit (25C)</a>	 <p>Buildings</p>	Credit for components that improve the energy efficiency of an existing home	<ul style="list-style-type: none"> <li>• 30% of cost, with limits for each type of improvement (e.g. \$2,000 for air source heat pumps).</li> <li>• Total annual credit capped at \$1,200, with a separate annual \$2,000 limit for heat pumps</li> </ul>

<a href="#">Residential Clean Energy Credit (25D)</a>		Credit for the purchase of residential clean energy equipment	<ul style="list-style-type: none"> <li>• A one-time payment based on 30% of the cost of the project</li> <li>• Can be used for solar panels, solar water heaters, fuel cells, wind turbines, geothermal heat pump, and battery storage</li> </ul>
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## Part III: Explainers

### <sup>1</sup> Prevailing Wage and Apprenticeship Bonus

Certain tax credits have Prevailing Wage and Apprenticeship (PWA) bonuses to receive the full value of the credit. If the prevailing wage and apprenticeship requirements aren't met, the credits above are decreased by 5 times (e.g. the 30% ITC becomes a 6% ITC). The PWA requires a taxpayer to pay their employed laborers and mechanics wages at "rates not less than the prevailing rates for construction, alteration, or repair of a similar character in the locality in which such facility is located." Apprenticeship Labor Hour and Participation Requirements must be met. [See here for more information](#). These requirements apply to the following programs:

- Investment Tax Credit (48, 48E), unless the applicable project is less than 1 megawatt
- Production Tax Credit (45, 45Y), unless the applicable project is less than 1 megawatt
- Energy Efficient Commercial Buildings Deduction (179D)
- Alternative Fuel Vehicle Refueling Property Credit (30C) for businesses, not individuals
- New Energy Efficient Homes Credit (45L) for multifamily, not single family homes
- Carbon Oxide Sequestration Credit (45Q)
- Zero-Emission Nuclear Power Production Credit (45U)
- Clean Hydrogen Production Credit (45V)
- Clean Fuel Production Credit (45Z)
- Qualifying Advanced Energy Project Credit (48C)

### <sup>2</sup> Domestic Content Bonus

Entities can receive an extra 10% for the Investment Tax Credit (48, 48E) and the Production Tax Credit (45, 45Y) if they meet the domestic content requirement. To satisfy this requirement, all steel and iron manufacturing processes must take place in the United States **AND** 40% of the project's manufactured components must be produced in the United States for projects put in service before 2025, 45% in 2025, 50% in 2026, and 55% after 2026.

Tax-exempt entities **must** meet the domestic content requirement to receive the full credit via direct pay. Projects seeking direct pay that do not meet the domestic content requirement will receive 90% of the credit if started in 2024, 85% of the credit if started in 2025, and 0% of the credit if started after 2025. [See here for more information](#).

### <sup>3</sup> Energy Communities Bonus

Entities can receive an extra 10% for the Investment Tax Credit (48, 48E) and the Production Tax Credit (45, 45Y) if the project is located in an energy community. Energy communities include brownfield sites; areas with significant employment in coal, oil, or gas extraction or processing since 2000; or a census tract (or directly adjoining census tract) where a coal mine closed since 2000 or coal unit retired since 2010. [See here for more information](#).

### <sup>4</sup> Low-income Community Bonus

Solar and wind facilities projects (up to 5 MW in capacity) can receive an addition adder. Credit is increased by 10 percentage points for projects located in low-income communities or on Tribal land. Credit is increased by 20 percentage points for projects that are part of certain federally subsidized housing programs or that offer at least 50 percent of the financial benefits of the electricity produced to low-income households. This bonus amount will require an application by the taxpayer, with a cumulative total of 1.8 GW of direct current capacity per year available for allocation. [See here for more information](#).

## Part IV: EPA Competitive Grants

The Environmental Protection Agency is administering competitive grants that will result in new green financial institutions and funding for planning greenhouse gas (GHG) reduction projects.

Program	Industry	Description	Amount
<a href="#">Greenhouse Gas Reduction Fund (GGRF)</a>	All	Competitive grant funding to develop national network of entities who will mobilize transition financing and leverage private capital into projects that reduce or avoid greenhouse gas emissions, with a focus on achieving benefits for low-income and disadvantaged communities	<ul style="list-style-type: none"> <li>• \$7B for Solar for All programs</li> <li>• \$14B for National Clean Investment Fund</li> <li>• \$6B for Clean Communities Investment Accelerator</li> </ul>
<a href="#">Climate Pollution Reduction Grants</a>	All	Grants to support states, air pollution control agencies, tribal governments, and local governments as they develop and implement strong climate pollution reduction strategies. These grants provide a high degree of flexibility. While they do not fund industrial projects directly, these funds could be an important lever to support local governments conducting complementary activities.	<ul style="list-style-type: none"> <li>• \$250 million in noncompetitive planning grants</li> <li>• \$4.6 billion in competitive implementation grants</li> </ul>

## Part V: Helpful Resources

1. [The White House guide to direct pay](#), *The White House*
2. [The White House IRA Guidebook](#), *The White House*
3. [Alliance for a Sustainable Future Cities Direct Pay](#), *US Conference of Mayors and C2ES*
4. [DOE's guide to the Investment Tax Credit and Production Tax Credit](#), *the Department of Energy*
5. [Federal Funding Opportunities for Local Decarbonization](#), *American Cities Climate Challenge*

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