



Religious Organizations Can Benefit from the Inflation Reduction Act's Clean Energy Tax Credits

In August 2022, President Biden signed into law the Inflation Reduction Act ("IRA"). The IRA is expected to make the largest federal investment in climate and clean energy policy, with an estimated \$270 billion dollar investment through clean energy tax incentives. Taxpayers can start claiming these credits in 2023 and for several years after.

Before the IRA, religious and other tax-exempt organizations were unable to claim or benefit from clean energy tax credits unless they had unrelated business taxable income or could benefit indirectly by entering into agreements to purchase clean electricity at reduced prices. The IRA addresses these challenges through the new direct pay provisions that allow tax-exempt organizations, including religious organizations, to fully benefit from the IRA. Starting in 2023, religious organizations are able to invest in qualifying clean energy property and claim the value of an eligible tax credit as a direct cash payment from the government.

Direct Pay Allows Tax-Exempt Organizations to Benefit from Clean Energy Tax Credits

The IRA enables several types of entities that would otherwise be unable to claim tax credits to take advantage of the IRA's clean energy tax incentives through the direct pay provisions. Direct pay allows eligible organizations to elect to treat the amount of the credit as an overpayment of tax that results in a cash refund payment from the government.

Churches, synagogues, mosques, and other tax-exempt organizations are all eligible to claim the eligible tax credits as a direct payment. Indeed, any organization that is exempt from taxation under section 501(a), or various other governmental entities (such as a state or political subdivision, the Tennessee Valley Authority, or Indian Tribal government) is eligible to claim direct pay for clean energy credits. However, recent guidance provides that partnerships are not eligible to claim direct pay, even if all of the partners are exempt organizations.

Direct pay can help these organizations afford to install clean energy projects, which can help them reduce their own energy use, reduce emissions, and save money so they can spend more resources on their mission. To claim direct pay, the organization will need to complete the pre-filing registration process with the IRS to receive a registration number for their project and then file the appropriate tax return, providing the registration number on the return. The Department of Treasury has not yet opened the registration process.

Tax Credits for Solar, Wind, Batteries, Electric Vehicle Charging, and Clean Vehicles Can Be Claimed as Direct Pay

Faith Alliance for Climate Solutions does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only. You should consult your own tax, legal, and accounting advisors before engaging in any transaction.



Religious and other exempt organizations can claim several of the IRA's clean energy tax credits as direct pay, including:

- *Section 48 - Investment Tax Credit* for investments in renewable energy projects, including solar, energy storage and batteries, fuel cells, geothermal, small wind, and combined heat and power properties.
- *Section 30C - Alternative Fuel Vehicle Refueling Property Tax Credit* for investments in electric vehicle recharging equipment and other clean fuels refueling property provided that the charging equipment or refueling property is located in a rural or low-income census tract.
- *Section 45W - Commercial Clean Vehicle Credit* for the purchase of a qualified commercial clean vehicle such as an electric vehicle, truck, or bus. The IRA places a limit on the credit of \$7,500 for vehicles that weigh less than 14,000 pounds, and a \$40,000 limit for vehicles at or above that weight.