



Religious Organizations Must Register with the IRS Before Claiming the Inflation Reduction Act's Clean Energy Tax Credits as Direct Pay

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.

Before the IRA, religious and other tax-exempt organizations were unable to claim 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 elect to claim the value of an eligible tax credit as a direct cash payment from the government.

Organizations Must Register with the IRS and Obtain a Registration Number

Before registering with the IRS, the organization must decide which of the eligible tax credits they intend to claim for a direct pay election. When registering, the organization will have to provide the following information through the IRS's electronic portal:

- The organization's name, address, taxpayer identification number, and type of legal entity
- Information regarding the organization's tax-exempt status
- The organization's taxable year
- The type of annual tax return normally filed or if the organization does not normally file a tax return
- The applicable credits for which the organization intends to elect direct pay and the applicable property
- The physical location of the applicable property
- Supporting documentation related to the construction, ownership, or acquisition of the applicable property
- The beginning of construction date and placed in service date of the applicable property
- For investment credits, such as section 48 solar investment tax credit, the source of funds used to acquire the applicable property
- The name of a contact person for the applicable entity or electing taxpayer
- A penalties of perjury statement

After completing the registration process, the IRS will provide the organization with a registration number for each applicable property. This registration number must be included on the organization's tax return as part of making the direct pay election. If changes occur related to the property for which the organization is claiming the credit occurs before filing a return, the organization must amend the pre-registration.

The IRS has urged organizations seeking to claim direct pay to complete the pre-filing registration with sufficient time to obtain a valid registration number. The registration must be made electronically and IRS is still in the initial phase of creating the direct pay registration

process. The IRS has not opened the registration process and expects to make more information available regarding the process in late 2023.

Organizations Make the Direct Pay Election on their Form 990-T

An exempt organization claims an eligible tax credit and receives a direct payment by making the direct pay election on their annual Form 990-T (even if they are not otherwise required to file a Form 990-T) along with any other form required to claim the relevant tax credit. As a result, the direct pay election is not made for that year until the organization's tax return is filed. The Form 990-T must then be processed for the direct payment to then be made. In some instances, there could be a long wait time between the organization making the investment to generate the eligible credit and receiving the direct payment.

The Direct Pay Registration Number Must be Renewed Annually

The regulations state the registration number is only valid for the taxable year it is obtained and must be renewed annually.