



COMMERCIAL ENERGY TAX CREDITS: INFLATION REDUCTION ACT

BACKGROUND

The Inflation Reduction Act is a federal law passed in August 2022 by Congress that includes funding for tax credits for clean energy installations, efficiency upgrades, and low-carbon vehicle purchases.

Credits are available from 2023–2032. There is no limit on total amount a business can claim over the timeframe.

DIRECT PAY

IRA includes a provision, [direct or elective pay](#), that makes non-taxable entities eligible for clean energy and electric vehicle tax credits.

Eligible pay provides a cash payment after a project is completed and necessary tax documents are submitted. This requires that the upfront cost is fully paid prior to receiving the cash payment. The process requires an organization to register with the IRS for a registration number and submit project files to receive the credit.

Elective pay can be combined with other grants, forgivable loans, or tax-exempt bonds, as long as the total funds do not exceed the total cost of the project.

TAX CREDIT DETAILS

Credits are nonrefundable: one cannot get more back on the credit than they owe in taxes for the year. Commercial energy efficiency benefit is a deduction on total income rather than credit.

State and utility rebates are not subtracted from eligible total upfront cost of the equipment before calculating credit amount, unless the utility rebate is for an installation at an apartment building or residence.

An organization cannot file until the year that the system is installed and in-service (e.g., solar panels generating energy, car on the road, or equipment being used in the building).

CLEAN ENERGY CREDITS

Investment Tax Credit

Eligible activities: Install fuel cell, solar, geothermal, small wind, energy storage (>5 kWh), biogas system, microgrid controllers (20 MW or less), and interconnection for small projects (5 MW or less)

Amount:

- Less than 1 MW: 30% of upfront cost
- More than 1 MW: 6% of upfront cost, but 30% if prevailing wage and registered apprenticeship met

Bonuses:

- Additional 10% if [domestic content requirements](#) are met or if located in an [energy community](#)
- Additional 10–20% [low-income community bonus credit](#) available through application if requirements met

Eligible applicants: Businesses, nonprofits, and other organizations. Direct pay also makes non-tax-paying entities eligible for funding (see direct pay breakout box)

Application details: Nonrefundable credit and can rollover excess credit to a following year

Production Tax Credit

Eligible activities: Generation of wind, biomass, geothermal, solar, small irrigation, landfill and trash, hydropower, and hydrokinetic energy

Amount:

- Less than 1 MW: \$0.15/kW claimed each year for 10 years
- More than 1 MW: \$0.03/kW, \$0.15/kW [if prevailing wage and registered apprenticeship](#) requirements met. Claimed each year for 10 years

Bonuses:

- Additional 10% if [domestic content requirements](#) are met or located in an energy community
- Additional 10–20% [low-income community bonus credit](#) available through application if requirements met

Eligible applicants: Businesses, nonprofits, and other organizations. Direct pay also makes non-tax-paying entities eligible for funding (see direct pay breakout box)

Application details: Nonrefundable credit and can rollover excess credit to a following year

ENERGY EFFICIENCY CREDITS

179D Energy Efficient Commercial Buildings Deduction

Eligible activities: Energy efficient improvements to new or existing commercial buildings: lighting, heating, cooling, hot water, envelope improvements.

Amount and limits: \$0.50/ft² for 25% energy savings plus \$0.02/ft² for each percentage point savings above 25%

Limits: Maximum of \$1.00/ft² for 50% energy savings

Bonuses: Five times higher if prevailing wage and registered apprenticeship requirements are met.

Eligible applicants: Owners and long-term lessees of commercial buildings. Designers of new buildings. Not eligible for direct pay.

Application details: Must include a certification that shows the building meets energy savings requirements.

- Tax deduction that reduces total taxable income, rather than total tax due.

ELECTRIC VEHICLE CREDITS

Commercial Clean Vehicle Tax Credit

Eligible activities: Owned or leased vehicles used for business on public streets or as mobile machinery.

Amount: 30% of upfront cost for fully electric vehicles; 15% of upfront cost for plug-in hybrid vehicles.

Limits: Must be made by a qualified manufacturer.

- \$7,500 limit per vehicle for vehicles under 14,000 lbs
- \$40,000 limit per vehicle for vehicles over 14,000 lbs

Eligible applicants: Businesses and tax-exempt organizations.

Application details: Nonrefundable credit and can rollover excess credit to a following year

- Fill out **Form 8936** to file OR dealership can request **advanced payment** through IRS portal and subtract credit from purchase price.

Alternative fuel vehicle refueling property tax credit

Eligible activities: Installation of refueling and charging property, including electricity, ethanol, natural gas, ethanol, and biodiesel.

Amount: 6% base amount of total upfront cost with a limit of \$100,000

Bonus: 30% if prevailing wage and registered apprenticeship requirements are met.

Limits: Must be installed in a **census tract that is not in an urban area, tract with 20% poverty rate**, or tract where median family income is less than 80% of statewide median income.

Eligible applicants: Businesses or non-tax-paying entities

RESOURCES

Answers to frequently asked questions on vehicles: <https://www.irs.gov/newsroom/frequently-asked-questions-about-the-new-previously-owned-and-qualified-commercial-clean-vehicles-credit>

Qualified manufacturers list: <https://www.irs.gov/credits-deductions/manufacturers-for-qualified-commercial-clean-vehicle-credit>

Pre-Registration User Guide: <https://www.irs.gov/pub/irs-pdf/p5884.pdf>

Elective Pay and Transferability FAQs: <https://www.irs.gov/credits-deductions/elective-pay-and-transferability-frequently-asked-questions-elective-pay>