Clean Energy Tax Incentives: Elective Pay Eligible Tax Credits

The Inflation Reduction Act of 2022 ("IRA") makes several clean energy tax credits available to businesses; tax-exempt organizations; state, local, and tribal governments; other entities; and individuals. The IRA also enables entities to take advantage of certain clean energy tax credits through its elective pay provision (also colloquially known as direct pay). Elective pay allows several types of entities, such as tax-exempts and governments, to treat the amount of certain credits as a payment against tax on their tax returns and as a result receive direct payments for certain clean energy tax credits.

	Tax Provision	Description
Energy Generation & Carbon Capture	**Production Tax Credit for Electricity from Renewables** (§ 45, pre-2025)	**For production of electricity from eligible renewable sources**, including wind, biomass, geothermal, solar, small irrigation, landfill and trash, hydropower, marine and hydrokinetic energy. **Credit Amount (for 2022):** 0.55 cents/kilowatt (kW); (1/2 rate for electricity produced from open loop biomass, landfill gas, and trash); 2.75 cents/kW if Prevailing Wage and Apprenticeship (PWA) rules are met [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 begin construction and are placed in service after 2024. **Credit Amount:** Starts in 2025, consistent with credit amounts under section 45 [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:** 6% of qualified investment (basis); 30% if PWA requirements 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 [7]
Energy Generation & Carbon Capture	**Credit for Carbon Oxide Sequestration** (§ 45Q)	**Credit for carbon dioxide 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 used, 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 req's met [1,7]
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 materials. **Credit Amount:** Varies by component
Vehicles	**Credit for Qualified Commercial Clean Vehicles** (§ 45W)	**For purchasers of commercial clean vehicles**. Qualifying vehicles include passenger vehicles, buses, ambulances, and certain other vehicles for use on public streets, roads, and highways. **Credit Amount:** Up to $40,000 (max $7,500 for vehicles <14,000 lbs) [9]
Vehicles	**Alternative Fuel Vehicle Refueling Property Credit** (§ 30C)	**For alternative fuel vehicle refueling and charging property**, located in low-income and non-urban areas. Qualified fuels include electricity, ethanol, natural gas, hydrogen, and biodiesel. **Credit Amount:** 6% of basis for businesses and can increase to 30% if PWA is met.
Fuels	**Clean Hydrogen Production Tax Credit** (§ 45V)	**For producing clean hydrogen** at a qualified, U.S.-based clean hydrogen production facility. **Credit Amount:** $0.60/kg multiplied by the applicable percentage (20% to 100%, depending on lifecycle greenhouse gas emissions), amount increases if PWA is met [1,7]
Fuels	**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]

Please see the notes on the next page or see IRS.gov/cleanenergy for more information.

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 increased by 5 times for projects that pay prevailing wages and use registered apprentices. Apprenticeship requirements do not apply for §§ 45L and 45U. Prevailing wage and apprenticeship requirements do not apply to certain projects, including certain projects of less than 1 megawatt or those that began construction prior to January 29, 2023.

[2] Credit is increased by 10% if the project meets certain domestic content requirements for steel or iron, and manufac tured products.

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

[4] Credit is increased by up to 10 percentage points for projects meeting certain domestic content requirements for steel, 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 rate is adjusted annually for inflation.

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

[9] The entities eligible for elective pay of the commercial clean vehicle credit is a subset of the entities eligible for elective pay of other credits. In addition, starting January 1, 2024, the amount of a new clean vehicle or previously owned clean vehicle tax credit (but not a commercial clean vehicle credit) can be transferred to a dealer for an equivalent reduction in the eligible vehicle's sales price.

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