Section 6417 Direct Pay: A Filing Guide for Tax-Exempt Entities

Pre-filing registration, Form 990-T preparation, and compliance requirements for elective pay elections

Dedux Tax Consulting and Advisory
GreenFile Advisory Practice

July 2026 | deduxtax.com

1. What Is Section 6417?

Section 6417 of the Internal Revenue Code, enacted as part of the Inflation Reduction Act, allows certain tax-exempt entities to treat eligible clean energy tax credits as a payment of federal tax. Because the credit is treated as tax paid, it generates an overpayment, and the IRS refunds that overpayment in cash.

This mechanism is commonly referred to as "direct pay" or "elective pay." It does not change how the credit is calculated. It changes how the credit is delivered: instead of reducing a tax bill, it becomes a cash payment from the Treasury.

Direct pay is available for most of the clean energy credits created or extended by the Inflation Reduction Act, including the Investment Tax Credit (Section 48 / 48E), the Production Tax Credit (Section 45 / 45Y), and several others. This guide focuses on the ITC, which is the most frequently used credit among tax-exempt organizations investing in solar, storage, and related technologies.

2. Who Can Elect Direct Pay?

Direct pay is limited to "applicable entities" as defined in the statute. Taxable corporations and partnerships are generally not eligible for direct pay on the ITC (they may use credit transfer under Section 6418 instead). The entities that qualify for direct pay include:

- Organizations exempt from tax under Section 501(a), including 501(c)(3) nonprofits
- State and local government entities, including public school districts, transit authorities, and water districts
- Tribal governments and their political subdivisions
- The Tennessee Valley Authority
- Rural electric cooperatives described in Section 501(c)(12) or Section 1381(a)(2)(C)
- Alaska Native Corporations
- Any political subdivision of a state, territory, or possession

If your organization files Form 990 or 990-EZ with the IRS, or is a unit of state or local government, you are very likely an applicable entity eligible for direct pay. The analysis starts with confirming your exempt status and the type of credit you are claiming.

3. Pre-Filing Registration: Step by Step

Before making a direct pay election on a tax return, the organization must complete pre-filing registration through the IRS Energy Credits Online portal. Registration is required for each energy property (each individual project or system) for which the entity intends to claim a credit.

Step 1: Obtain or Verify Your EIN

Every entity making a direct pay election must have an active Employer Identification Number (EIN). If your organization does not have an EIN, one must be obtained before registration.

Step 2: Create an IRS Online Account

An authorized representative of the organization must create or access an account on the IRS Energy Credits Online portal at irs.gov. This requires identity verification through the ID.me process. The representative will serve as the point of contact for registration matters.

Step 3: Register Each Eligible Property

For each energy property, the entity enters details including the type of technology (solar, storage, wind, etc.), the physical address of the installation, the placed-in-service date, and the estimated credit amount. If a facility includes multiple types of energy property (for example, solar panels and battery storage), each type is registered separately.

Step 4: Receive Registration Numbers

The IRS reviews the registration and issues a unique registration number for each property. This number must be included on the tax return when claiming the credit. Registration numbers are typically issued within a few weeks, though timing can vary.

Step 5: Amend Registrations if Needed

If project details change between registration and filing (for example, if the placed-in-service date shifts or the credit amount is revised), the entity should update the registration before filing.

> *Registration does not commit your organization to claiming the credit. It is a prerequisite that must be completed before the return is filed, but the election itself is made on the 990-T.*

4. Filing Form 990-T with the Direct Pay Election

The direct pay election is made on Form 990-T (Exempt Organization Business Income Tax Return). Many tax-exempt organizations are not accustomed to filing this form because they have no unrelated business income. For direct pay purposes, the 990-T serves as the vehicle for reporting the credit election, regardless of whether the entity has UBI.

What Gets Filed

- **Form 990-T.** The base return, with the elective pay election indicated.
- **Form 3468.** Investment Credit form, reporting the eligible basis, credit rate, and computed credit for each property.
- **Schedule A (Form 990-T).** If the entity has unrelated business income, this is included as usual.
- **Registration number(s).** The unique number(s) received during pre-filing registration, reported on the applicable credit form.
- **Prevailing Wage / Apprenticeship documentation.** If claiming the full 30% rate on a project of 1 MW or larger, supporting documentation for wage and apprenticeship compliance.

Filing Deadlines

The election must be made on an original, timely filed return (including extensions). For most tax-exempt organizations with a calendar-year tax year, this means the 990-T is due on April 15 of the following year, with an automatic extension available to October 15. The critical rule: a direct pay election cannot be made on an amended return. If the original return is filed without the election, the opportunity for that tax year is lost.

> *Organizations that have never filed a 990-T should confirm that their EIN is set up to accept this return type. In some cases, entities need to update their IRS filing profile before the 990-T can be processed.*

After Filing: What to Expect

Once the 990-T is accepted, the IRS processes the elected credit as an overpayment. The refund is issued to the organization through the normal IRS payment process. Most entities elect direct deposit for faster receipt. Processing times depend on IRS workload, but organizations should plan for standard refund timelines, typically several weeks to a few months after filing.

If the IRS has questions about the registration or the return, the agency may issue a notice or request additional documentation. Maintaining a clean file with project records, supplier certifications, and placed-in-service evidence reduces the risk of delays.

5. Common Filing Pitfalls

- **Filing on an amended return.** The election is only valid on a timely filed original return. Amended returns cannot carry a new direct pay election.
- **Missing pre-filing registration.** The registration number is a required element on the return. Filing without it will delay or prevent payment.
- **Incorrect placed-in-service date.** The credit attaches when the property is placed in service, not when construction begins or when the contract is signed. Reporting the wrong date can trigger processing issues.
- **Failing to update registration.** If project costs or dates change materially after registration, the registration should be updated to match the return. Discrepancies between the registration and the 990-T can flag the return for review.
- **Overlooking the recapture rules.** If the energy property is sold, disposed of, or ceases to qualify within five years of being placed in service, some or all of the credit may need to be returned to the IRS.
- **Not accounting for subsidized financing.** Grants, forgivable loans, or tax-exempt bond proceeds may reduce the eligible basis. Failing to account for this overstates the credit.
- **Missing PWA requirements on larger projects.** Projects of 1 MW or greater that don't meet prevailing wage and apprenticeship standards receive only 6% instead of 30%. This is a significant difference, and compliance documentation should be in place before filing.

6. Direct Pay Filing Checklist

Step	Action	Status
1	Confirm applicable entity status (501(c)(3), government, tribal, etc.)	
2	Verify EIN is active and eligible for 990-T filing	
3	Confirm placed-in-service date for each energy property	
4	Determine eligible basis (account for grants, subsidies, bonds)	
5	Assess PWA requirements for projects 1 MW or larger	
6	Evaluate bonus credit eligibility (Energy Community, Domestic Content, LICB)	
7	Complete IRS Energy Credits Online registration for each property	
8	Receive registration number(s) from IRS	

Step	Action	Status
9	Prepare Form 990-T with Form 3468 and direct pay election	
10	File on time (original return, including extensions)	
11	Monitor for IRS correspondence and respond promptly	
12	Maintain records for the five-year recapture period	

7. How GreenFile Advisory Can Help

GreenFile Advisory, a practice of Dedux Tax Consulting and Advisory, handles the filing and compliance side of the direct pay process. We work with eligible organizations to register their energy properties, prepare Form 990-T, and file the direct pay election accurately and on time.

Our focus is on getting the paperwork right. We don't sell solar panels or structure financing. We handle the tax filing so that organizations receive the credits they've earned.

Ready to discuss your organization's filing? Visit deduxtax.com or reach us at andrew@deduxtax.com.