ITC Bonus Credits: Maximizing Your Clean Energy Investment

Energy Community, Domestic Content, and Low-Income Community adders for tax-exempt organizations

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1. Beyond the Baseline: How Bonus Credits Work

The Investment Tax Credit starts at 30% of eligible project costs for qualifying installations. That is a significant incentive on its own. But the Inflation Reduction Act also created three categories of bonus credits that can push the effective credit rate substantially higher, up to 70% in certain cases.

Each bonus is independent. A project can qualify for one, two, or all three depending on the facts. And because all credits are payable in cash through direct pay, the bonus adders translate directly into additional payments from the IRS.

Credit Component	Adder	Cumulative Maximum
Baseline ITC (with PWA)	30%	30%
Energy Community Bonus	+10%	40%
Domestic Content Bonus	+10%	50%
Low-Income Communities Bonus (Category 1 or 2)	+10%	60%
Low-Income Communities Bonus (Category 3 or 4)	+20%	70%

Note: The Low-Income Communities categories are mutually exclusive (a project applies under one category). The theoretical maximum of 70% requires Category 3 or 4 plus both other bonuses.

2. Energy Community Bonus (+10%)

The Energy Community Bonus adds 10 percentage points to the ITC for projects located in areas that the law designates as energy communities. The designation is intended to direct clean energy investment toward regions with economic ties to fossil fuel industries.

What Qualifies as an Energy Community?

The statute and Treasury guidance define three categories of energy communities:

- **Brownfield sites.** Properties where expansion, redevelopment, or reuse may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant, as defined under federal law. Certification or listing by EPA or a state environmental agency is typically required.
- **Statistical areas with fossil fuel employment.** Metropolitan or non-metropolitan statistical areas where fossil fuel activities account for at least a threshold share of employment (0.17% or higher) or tax revenue (25% or higher). The Bureau of Labor Statistics and IRS data drive these determinations. Lists are published annually by the Department of Energy.
- **Census tracts with retired coal infrastructure.** Tracts that contain, or are directly adjoining, a coal mine that has closed after 1999 or a coal-fired electric generating unit that has been retired after 2009.

How to Verify Eligibility

The Department of Energy maintains an interactive mapping tool at energycommunities.gov that allows users to enter a project address and check whether it falls within a qualifying energy community. The determination is parcel-specific: two properties in the same city may have different results depending on their exact location relative to census tract boundaries.

> *Energy community designations can change from year to year as employment and energy data are updated. It is important to verify eligibility based on the year the project is placed in service, not the year construction began.*

3. Domestic Content Bonus (+10%)

An additional 10 percentage points is available for projects that satisfy domestic content requirements. The bonus is designed to incentivize the use of U.S.-manufactured steel, iron, and components in clean energy installations.

Requirements

To qualify, the project must meet two conditions:

1. **Steel and iron.** All structural steel and iron used in the project must be produced in the United States. This includes melting, rolling, and finishing. Minor components (such as fasteners and small fittings) are subject to a de minimis exception.
2. **Manufactured products.** A specified percentage of the total cost of manufactured components must be attributable to components mined, produced, or manufactured in the United States. The threshold started at 40% for projects beginning construction in 2024 and increases in subsequent years.

Construction Start Year	Manufactured Product Threshold
2024	40%
2025	45%
2026	50%
2027 and later	55%

Documentation

Claiming the Domestic Content Bonus requires documentation from suppliers certifying the origin of materials and components. The taxpayer must maintain a written statement from each relevant manufacturer or supplier, and the IRS may request these records during examination. The documentation requirements are detailed in IRS Notice 2024-41 and subsequent guidance.

The domestic content analysis can be complex for large projects with many component suppliers. Starting the documentation process early, ideally at the procurement stage, is significantly easier than reconstructing it after installation.

4. Low-Income Communities Bonus (+10% to +20%)

The Low-Income Communities Bonus Credit Program (Section 48(e) / 48E(h)) provides the largest potential adder, up to 20 additional percentage points, but operates differently from the other two bonuses. It is a capacity-limited, application-based program administered by the IRS.

The Four Categories

Category 1: Located in a Low-Income Community

A project qualifies under Category 1 if it is located in a census tract that meets the definition of a low-income community under the New Markets Tax Credit program (Section 45D(e)). These are tracts where the poverty rate is at least 20% or where median family income does not exceed 80% of the area median. The adder is 10 percentage points.

Category 2: Located on Indian Land

Projects physically located on Indian land, as defined in Section 2601(2) of the Energy Policy Act of 1992, qualify for a 10 percentage point adder. This category supports clean energy development on federally recognized Tribal territories.

Category 3: Qualified Low-Income Residential Building Project

A project qualifies under Category 3 if it is installed on a residential building that participates in a covered housing program (Section 8, LIHTC, public housing, USDA Section 515, or similar federal programs). This category earns a 20 percentage point adder. The project must be under 5 MW of capacity.

Category 4: Qualified Low-Income Economic Benefit Project

A project qualifies under Category 4 if at least 50% of the financial benefits of the electricity produced flow to households with income below 200% of the federal poverty line, or below 80% of area median gross income. This category also earns a 20 percentage point adder and has a 5 MW capacity limit.

The Application Process

Unlike the Energy Community and Domestic Content bonuses, which are self-certified on the tax return, the Low-Income Communities Bonus requires an application for a capacity allocation from the IRS. The program has a fixed annual budget of capacity (measured in megawatts), and applications are reviewed on an annual cycle.

Applications are submitted through the IRS online portal. The IRS evaluates applications and issues allocation letters to approved projects. Once an allocation is received, the project must be placed in service within a specified window (typically within four years) to use the bonus credit.

> *The Low-Income Communities Bonus is especially relevant for nonprofits and public housing authorities installing solar on affordable housing. The 20% adder on top of the base 30% ITC means a project could receive credits worth 50% of eligible costs before any other bonuses are applied.*

5. How the Bonuses Stack

The three bonus categories are additive. A single project can qualify for the Energy Community bonus, the Domestic Content bonus, and one category of the Low-Income Communities Bonus simultaneously. Here are three illustrative scenarios:

Scenario A: Solar on a Nonprofit Community Center

A 501(c)(3) community center installs a 200 kW rooftop solar system. The project is in a low-income census tract (Category 1) and in an energy community. The installer uses domestically manufactured panels.

Credit Component	Rate
Baseline ITC (under 1 MW, automatic PWA exemption)	30%
Energy Community Bonus	+10%
Domestic Content Bonus	+10%
Low-Income Community Bonus (Category 1)	+10%
Total Credit Rate	60%

Scenario B: Solar + Storage on Public Housing

A public housing authority installs a 500 kW solar and battery system on a Section 8 property. It qualifies as a Category 3 low-income residential building project. Domestic content requirements are met.

Credit Component	Rate
Baseline ITC	30%
Domestic Content Bonus	+10%
Low-Income Residential Building Bonus (Category 3)	+20%
Total Credit Rate	60%

Scenario C: Maximum Stack

A tribal government installs a 3 MW solar project on Indian land, in an energy community. The project uses domestic-content-qualifying equipment and distributes at least 50% of its economic benefits to low-income households (Category 4).

Credit Component	Rate
Baseline ITC (with PWA compliance, 3 MW project)	30%
Energy Community Bonus	+10%
Domestic Content Bonus	+10%
Low-Income Economic Benefit Bonus (Category 4)	+20%
Total Credit Rate	70%

These scenarios are illustrative. Actual eligibility depends on project-specific facts including location, capacity, equipment sourcing, and compliance with prevailing wage and apprenticeship requirements for larger installations.

6. Key Resources and References

Topic	Resource
Energy Community mapping and lookup	energycommunities.gov
Domestic Content guidance	IRS Notice 2024-41 (irs.gov)
Low-Income Communities Bonus program	irs.gov/credits-deductions/low-income-communities-bonus-credit
Pre-filing registration portal	irs.gov/credits-deductions/register-for-clean-energy-tax-credits
Treasury Elective Pay regulations (T.D. 9993)	home.treasury.gov
Prevailing wage and apprenticeship requirements	IRS Notice 2022-61, IRS Final Regulations (T.D. 9998)

Ready to Evaluate Your Project?

GreenFile Advisory, a practice of Dedux Tax Consulting and Advisory, can help you identify which bonus credits apply to your project and ensure the filing captures every eligible adder. Visit deduxtax.com or contact us at andrew@deduxtax.com.