The Nonprofit's Guide to the Investment Tax Credit

How tax-exempt organizations can access clean energy incentives through the Inflation Reduction Act

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1. The Landscape Has Changed

For decades, the federal Investment Tax Credit rewarded private companies that invested in solar, wind, and other clean energy technologies. Nonprofits, churches, school districts, municipal governments, and other tax-exempt organizations were largely shut out of the program because the credit only had value against federal income tax liability, something these entities don't have.

The Inflation Reduction Act of 2022 changed that. Through a provision called "elective pay" (also known as direct pay), tax-exempt entities can now receive the full dollar value of their clean energy tax credits as a cash payment from the IRS. The credit isn't a grant. It isn't a reimbursement. It's a payment made by the Treasury based on a tax return filing, just like a refund.

This guide explains how the Investment Tax Credit works for organizations that don't pay federal income tax, what qualifies, and what's involved in claiming the credit through direct pay.

2. What Is the Investment Tax Credit?

The Investment Tax Credit is a dollar-for-dollar reduction in federal tax liability, calculated as a percentage of the cost of qualifying energy property. When a nonprofit or government entity places eligible clean energy equipment into service, the ITC allows that organization to claim a credit equal to a percentage of the project's eligible costs.

Credit Rates

The baseline credit rate depends on project size and labor compliance. Projects under one megawatt of capacity automatically receive the full 30% rate. Larger projects receive 6% unless the project meets prevailing wage and apprenticeship requirements, in which case the rate increases to 30%.

Project Type	Base Rate	With PWA Compliance	Notes
Under 1 MW	30%	30% (automatic)	No labor requirements
1 MW and above	6%	30%	Must meet prevailing wage and apprenticeship standards
With bonus adders	Up to 50%	Up to 70%	Energy Community, Domestic Content, Low-Income

Eligible Technologies

The ITC applies to a range of clean energy technologies placed in service at the project site. The most commonly used technologies among tax-exempt organizations include:

- **Solar photovoltaic systems.** Rooftop and ground-mounted installations that generate electricity from sunlight.
- **Solar thermal systems.** Equipment that captures solar energy for heating or cooling.
- **Battery storage.** Standalone or paired energy storage systems with a capacity of at least 5 kilowatt-hours.
- **Small wind energy.** Wind turbines generating electricity on-site.
- **Geothermal heat pumps.** Systems that use ground-source thermal energy for climate control.
- **Biogas property.** Equipment that converts waste into usable gas for energy production.
- **Microgrid controllers.** Systems that manage on-site distributed energy resources.
- **Fuel cells and electrolyzers.** Hydrogen-related energy equipment meeting IRS efficiency thresholds.

The ITC is calculated on the eligible basis of the property, which generally includes equipment costs, installation labor, and certain site preparation work that is integral to the energy property. Land costs and non-energy structural work are excluded.

3. Who Qualifies for Direct Pay?

Section 6417 of the Internal Revenue Code defines the organizations eligible for elective pay. These are entities that are generally exempt from federal income tax or that serve a public function. The statute refers to them as "applicable entities."

Entity Type	Common Examples
501(c)(3) organizations	Charities, private foundations, community development organizations
State and local governments	Cities, counties, public school districts, state agencies, transit authorities
Tribal governments	Federally recognized tribes and their enterprises
Rural electric cooperatives	Member-owned utilities serving rural communities
Public housing authorities	Local and regional housing agencies
Tennessee Valley Authority	Federal corporation and its subsidiaries
Tax-exempt hospitals	Nonprofit hospital systems and affiliated clinical operations
Higher education institutions	Public and private nonprofit colleges and universities
Houses of worship	Churches, synagogues, mosques, temples, and other religious organizations

The common thread is that these entities cannot ordinarily use a tax credit because they have no federal tax liability. Direct pay converts the credit into a payment, putting them on equal footing with taxable businesses investing in the same technologies.

4. How Direct Pay Works

Direct pay is not a separate program with its own application process. It is an election made on a federal tax return. The filing sequence has three stages:

Stage 1: Pre-Filing Registration

Before filing a return with a direct pay election, the organization must register each eligible property through the IRS Energy Credits Online portal (available at irs.gov). During registration, the entity provides details about the energy property, including the type of technology, project location, and estimated credit amount. The IRS issues a unique registration number for each property, which must be included on the tax return.

Stage 2: Filing Form 990-T

Tax-exempt organizations claim the credit by filing Form 990-T (Exempt Organization Business Income Tax Return), even if they have no unrelated business income. The 990-T carries the elective pay election and attaches the relevant credit form (typically Form 3468 for the ITC). The registration number from Stage 1 is reported on the return.

Stage 3: IRS Processes the Payment

Once the return is accepted and processed, the IRS treats the elected credit amount as an overpayment of tax and issues a refund. The payment goes to the organization by direct deposit or check, depending on the method selected during filing. Processing times vary, but the payment follows the normal IRS refund timeline.

> *Direct pay is not discretionary. If your organization is an applicable entity, and the credit is properly computed and reported, the IRS must issue the payment. There is no competitive allocation, no scoring, and no waiting list for the base ITC credit.*

5. Bonus Credits That Stack on Top

The Inflation Reduction Act introduced several bonus adders that can increase the ITC beyond the baseline 30% rate. Each bonus is independent, and qualifying projects can stack more than one.

Energy Community Bonus (+10%)

An additional 10 percentage points is available for projects located in an "energy community," a designation based on geographic criteria including areas with closed coal mines or coal-fired power plants, brownfield sites, and census tracts with significant employment in fossil fuel industries. Eligibility is parcel-specific and can be verified through mapping tools maintained by the Department of Energy.

Domestic Content Bonus (+10%)

Projects that meet minimum thresholds for U.S.-manufactured components can claim an additional 10 percentage points. The requirement applies to steel, iron, and manufactured products used in the project. Thresholds increase over time (starting at 40% in 2024 and rising in later years). Documentation from suppliers confirming domestic content is required.

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

The Low-Income Communities Bonus Credit Program is a capacity-limited program that provides an additional 10 or 20 percentage points for qualifying smaller projects (under 5 MW). The program has four categories:

Category	Adder	Key Requirement
1: Located in a low-income community	+10%	Census tract meets income thresholds
2: Located on Indian land	+10%	Project on federally recognized Tribal land
3: Qualified low-income residential building	+20%	Serves residents of affordable housing
4: Qualified low-income economic benefit	+20%	At least 50% of financial benefits flow to low-income households

Unlike the base ITC, the Low-Income Communities Bonus requires an application to the IRS for a capacity allocation. Applications are submitted annually, and the program has a fixed annual capacity limit. Projects that receive an allocation must be placed in service within a specified window.

Prevailing Wage and Apprenticeship Requirements

For projects of 1 MW or greater, the full 30% base rate (and the full value of any bonus adders) requires compliance with prevailing wage and apprenticeship standards. This means paying construction workers at least the locally determined prevailing wage rate and ensuring that a percentage of total labor hours are performed by registered apprentices. Projects that do not meet these requirements receive the base rate of 6% instead of 30%.

6. Timing and Deadlines

Direct pay elections and the underlying ITC are both subject to timing requirements that organizations should track carefully.

Milestone	Deadline / Window	Details
Pre-filing registration	Before filing the return	Register each property on the IRS Energy Credits Online portal
990-T filing	Return due date (with extensions)	Election must be made on a timely filed original return
Placed in service	Project-specific	Property must be operational and available for use
Construction start (solar/wind)	July 4, 2026 or earlier preferred	Projects starting construction after this date face a Dec. 31, 2027 placed-in-service deadline
Low-Income allocation	Annual application cycle	Applications open each year; check IRS announcements
Recapture period	5 years from placed-in-service	Credit may be recaptured if property is disposed of or ceases to qualify

The direct pay election must be made on an original, timely filed return (including extensions). It cannot be made on an amended return. Missing this deadline means forfeiting the cash payment for that tax year.

7. How Other Funding Affects the Credit

Many nonprofit clean energy projects receive multiple forms of financial support: state grants, utility rebates, tax-exempt bond financing, or forgivable loans. These funding sources can interact with the ITC in ways that reduce the eligible basis of the project.

If a project receives a grant or other "subsidized energy financing," the eligible basis for computing the ITC is generally reduced by the amount of the subsidy. This means the credit is calculated on the net cost to the organization after accounting for other funding. Not all funding sources trigger a basis reduction, so careful analysis of each source is important.

Tax-exempt bond proceeds used to finance a project may also reduce the eligible basis. The interaction depends on whether the bond financing is treated as subsidized energy financing under the applicable Treasury regulations.

8. Getting Started

If your organization is considering a clean energy investment, or has already placed energy property into service, the filing process begins with understanding which credits apply and confirming your entity's eligibility for direct pay. From there, the work involves gathering project documentation, registering with the IRS portal, and preparing the return.

GreenFile Advisory, a practice of Dedux Tax Consulting and Advisory, focuses on the filing and compliance side of direct pay elections. We help eligible organizations register, prepare their 990-T, and submit their elections accurately and on time.

To learn more or discuss your organization's situation, visit deduxtax.com or contact us at andrew@deduxtax.com.

Key IRS and Treasury Resources

Resource	Source
IRS Energy Credits Online (pre-filing registration)	irs.gov/credits-deductions/register-for-clean-energy-tax-credits
IRS Notice 2024-27 (pre-filing registration guidance)	irs.gov
Form 990-T instructions	irs.gov/forms-pubs
Treasury Final Regulations on Elective Pay (T.D. 9993)	home.treasury.gov
Low-Income Communities Bonus Credit Program	irs.gov/credits-deductions/low-income-communities-bonus-credit
Energy Community definitions and maps	energycommunities.gov