

Introduction to Direct Pay

March 2025



MAINE GOVERNOR'S
Energy Office



GOVERNOR'S OFFICE OF
Policy Innovation
and the Future

Disclaimer

This presentation provides an overview of certain tax law for general informational purposes only. This presentation and the information contained in it are not tax guidance. The content is based on tax guidance on IRS.gov, information produced by third-party experts, and other publicly available information, and it relies on simplifications and generalizations to convey high-level points about the tax code. Please refer to guidance issued by the IRS and from your professional tax advisor for specific tax advice.

Agenda

1. About Us
2. Direct Pay Overview & Process
3. Calculating Your Credit
4. Braiding Funds
5. Direct Pay Examples
6. Q&A



About Us

- The Governor's Energy Office (GEO) and Governor's Office of Policy, Innovation, and the Future (GOPIF) are providing targeted educational materials to ensure eligible entities are aware that they are eligible for these tax credits.
- The GEO and GOPIF are working to ensure that eligible Maine entities that have previously invested in qualified projects are aware of available tax credits.

Visit our Direct Pay website [here](#).



Direct Pay Overview & Process

Direct Pay Overview

- Official IRS term is “Elective Pay” (used interchangeably)
- New mechanism for tax-exempt entities investing in clean energy
- Allows entities with no federal tax liability to make use of federal tax credits for the first time
- Result: a check from the IRS after filing a tax return
- Can combine with unrestricted grants, loans, and other types of funding
- Depending on the type of project & tax credit claimed, can be valued at large % of project costs
- Uncapped & generally not competitive

Keep in mind...

- *Direct Pay is not a grant. It comes in the form of a reimbursement (i.e., it is not up-front capital).*
- *Entities must own the project to claim the tax credit via Direct Pay.*

Direct Pay Eligible Entities

- Local & Tribal governments
- Agencies & instrumentalities of these governments (public school districts, transportation authorities, etc.)
- Community colleges & public universities
- Rural electric cooperatives
- **Houses of worship**
- **Non-profit organizations**
- **Any organization described in sections 501 through 530 that meets the requirements to be recognized as exempt from tax under those sections (including, among others, all organizations described in section 501(c)).**

See IRS FAQ on eligibility [here](#).

Direct Pay Eligible Investments

Not all energy projects/investments are eligible for Direct Pay. Examples of eligible projects and purchases include:

- ✓ Solar power
- ✓ Geothermal energy
- ✓ Energy storage/batteries
- ✓ EV charger installations
- ✓ EV purchases

Common energy projects/investments that are not eligible for Direct Pay include:

- ✗ Energy efficiency measures
 - Windows
 - LED Lights
- ✗ Weatherization
- ✗ Heat pump installations (except ground-source heat pumps)

Find more details on all Direct Pay eligible tax credits using [this](#) IRS fact sheet.

Direct Pay Example - Nonprofits

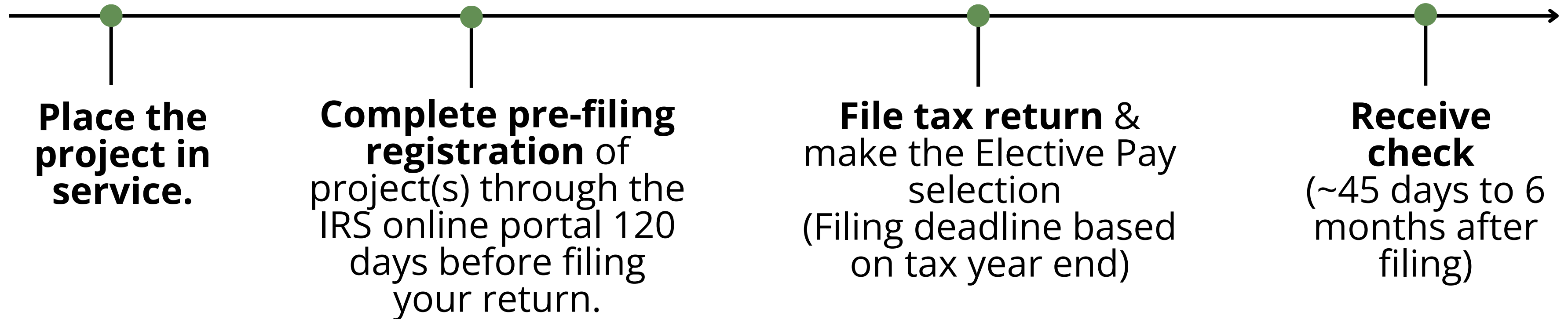
Humane Society of the Huron Valley - Ann Arbor, MI

- 501c(3)
- Solar panels placed in service in Dec. 2023
- Project cost: ~\$330,000
- Filed for Elective Pay: Nov. 2024
- Check received: Jan. 2025
- Check amount: ~\$100,000



Direct Pay Process

There are 4 key milestones in the Direct Pay Process:



2024 Filing Deadlines & Pre-filing Registration Dates

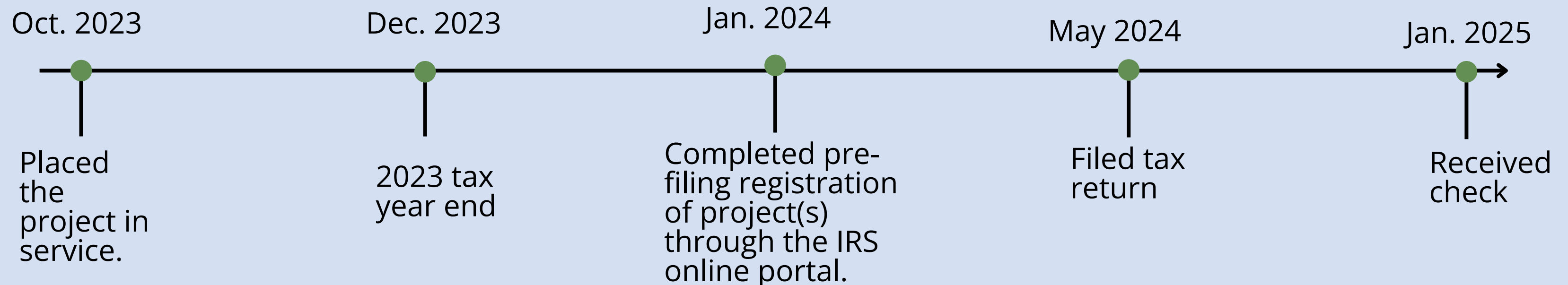
	Without extension		With 6-month extension	
Dates of 2024 Tax Year	IRS-recommended date for completing pre-filing registration	Filing deadline	IRS-recommended date for completing pre-filing registration for those using extension	Filing deadline after extension
7/1/23 - 6/30/24	7/18/2024	11/15/2024	12/15/2024	4/15/2025
10/1/23 - 9/30/24	10/18/2024	2/15/2025	4/17/2025	8/15/2025
1/1/24 - 12/31/24	1/15/2025	5/15/2025	7/18/2025	11/15/2025

- Entities can file for an extension using Form 8868 (due before their filing deadline)
- Filing deadline passed? Ask your accountant whether you qualify for an automatic extension

Direct Pay Example - Houses of Worship

Lord of Lords Ministries - Detroit, MI

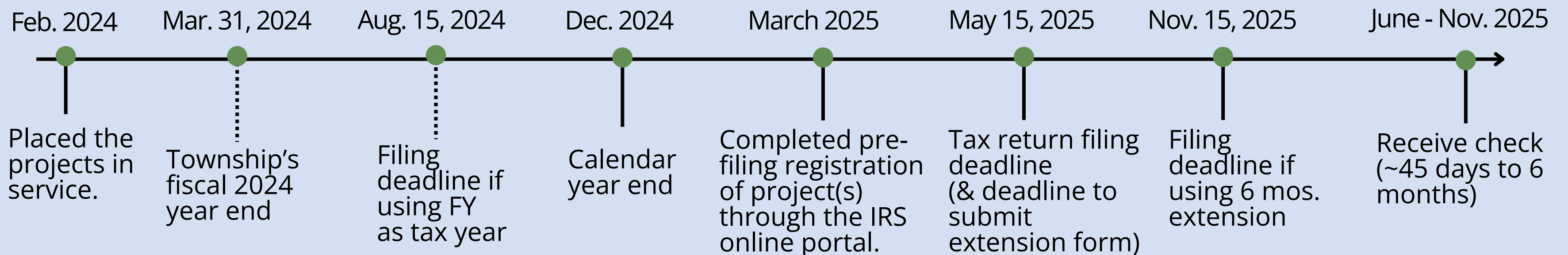
- ~14kW solar panels (ground mount)
- Placed in service in Oct. 2023
- Project cost: ~\$31,000
- Direct Pay check amount: ~\$13,000
(including interest from the IRS)



Direct Pay Examples - Municipalities

4 small townships in Upper Peninsula, MI

- Each installed solar panels on government buildings (e.g., ground mount solar at township halls, rooftop solar on fire department and on town offices)
- Project costs: ~\$66,000 - ~\$80,000 each (total ~\$290,000)
- All located in Energy Communities (+10% bonus credit)
- Projects placed in service throughout 2024 (2 in Feb. 2024, 1 June 2024, 1 Oct 2024)
- Townships' fiscal year: April 1, 2023 - March 31, 2024
 - Never filed tax returns before, so chosen CY as tax year
 - Filing for Direct Pay by May 15, 2025 (or November 15 if extension is needed) using CY
- Expected Direct Pay amount: 40% of project costs, ~\$115,000 total



Direct Pay Process

- Step 1** Place the project in service.
- Step 2** Identify the project(s) & the relevant tax credit(s) and bonus credit(s).
- Step 3** Ensure compliance with all relevant tax credit requirements, including appropriate documentation. Gather project data, ID.me account info, Employer Identification Number, etc; Determine tax year. →

Determine your tax year & familiarize yourself with the relevant filing deadlines.

First time filers can choose their tax year.

General rule: The deadline to file your return is the 15th day of 5th month after your tax year ends (+6 months if using extension).

Direct Pay Process

- Step 1** Place the project in service.
- Step 2** Identify the project(s) & the relevant tax credit(s) and bonus credit(s).
- Step 3** Ensure compliance with all relevant tax credit requirements, including appropriate documentation. Gather project data, ID.me account info, Employer Identification Number, etc; Determine tax year.
- Step 4** Complete pre-filing registration of project(s) through the IRS online portal 120 days before filing your return (IRS recommendation).



Visit this IRS website to:

Create an account &
Confirm you are an authorized representative

You will need:

Employer ID number (EIN)
Your personal name and address
Entity name and address

Then proceed to the Energy Credits Online portal
to enter 1) General information and
2) Tax credit information

Pre-Filing Registration

1) General Information

- Tax period of the election (tax year)
- EIN
- Any parent/subsidiary information
- Name
- Address
- Type of entity
- Bank account information
- Types of returns filed

2) Tax Credit Information

- Which tax credit(s) you will be claiming (choose from multiple choice)
- Additional info & documentation based on type of credit, but can include:
 - Date construction began
 - Date placed in service
 - Location (address, GPS coordinates)
 - Type of fuel/energy
 - Source of funds
 - Property Ownership
 - Permits

Direct Pay Process

- | | | | |
|---------------|--|---------------|---|
| Step 1 | Place the project in service. | Step 5 | Within 60-120 days, receive project ID number(s). |
| Step 2 | Identify the project(s) & the relevant tax credit(s) and bonus credit(s). | Step 6 | File tax return & make the Elective Pay selection |
| Step 3 | Ensure compliance with all relevant tax credit requirements, including appropriate documentation.
Gather project data, ID.me account info, Employer Identification Number, etc; Determine tax year. | | |
| Step 4 | Complete pre-filing registration of project(s) through the IRS online portal 120 days before filing your return (IRS recommendation). | | |

Calculating Your Credit

Top Tax Credits for Direct Pay Eligible Entities

1. Commercial Clean Vehicle Credit (45W)

- Applies to electric, plug-in hybrid, and fuel cell electric vehicles
- Value: One-time payment of **up to \$7,500** or **\$40,000**

Calculating Your EV Credit

Follow steps [on the IRS website](#) to calculate this credit, which equals the lesser of:

- 15% of the purchase price for a plug-in hybrid vehicle or 30% for fully electric or fuel cell vehicles, OR
- The incremental cost of the vehicle, which depends on the year the vehicle is placed in service. Refer to IRS [Notice 2024-5\(PDF\)](#) for the incremental cost for qualified vehicles placed in service in calendar year 2024

Credits are capped at:

- \$7,500 for passenger-sized vehicles (e.g., cars, vans, pick up trucks)
- \$40,000 for large vehicles (e.g., electric school buses, electric fire trucks)

There is no limit on the number of vehicles entities can claim.

Use [this](#) list on fueleconomy.gov as a helpful guide to certain models.

Top Tax Credits for Direct Pay Eligible Entities

1. Commercial Clean Vehicle Credit (45W)

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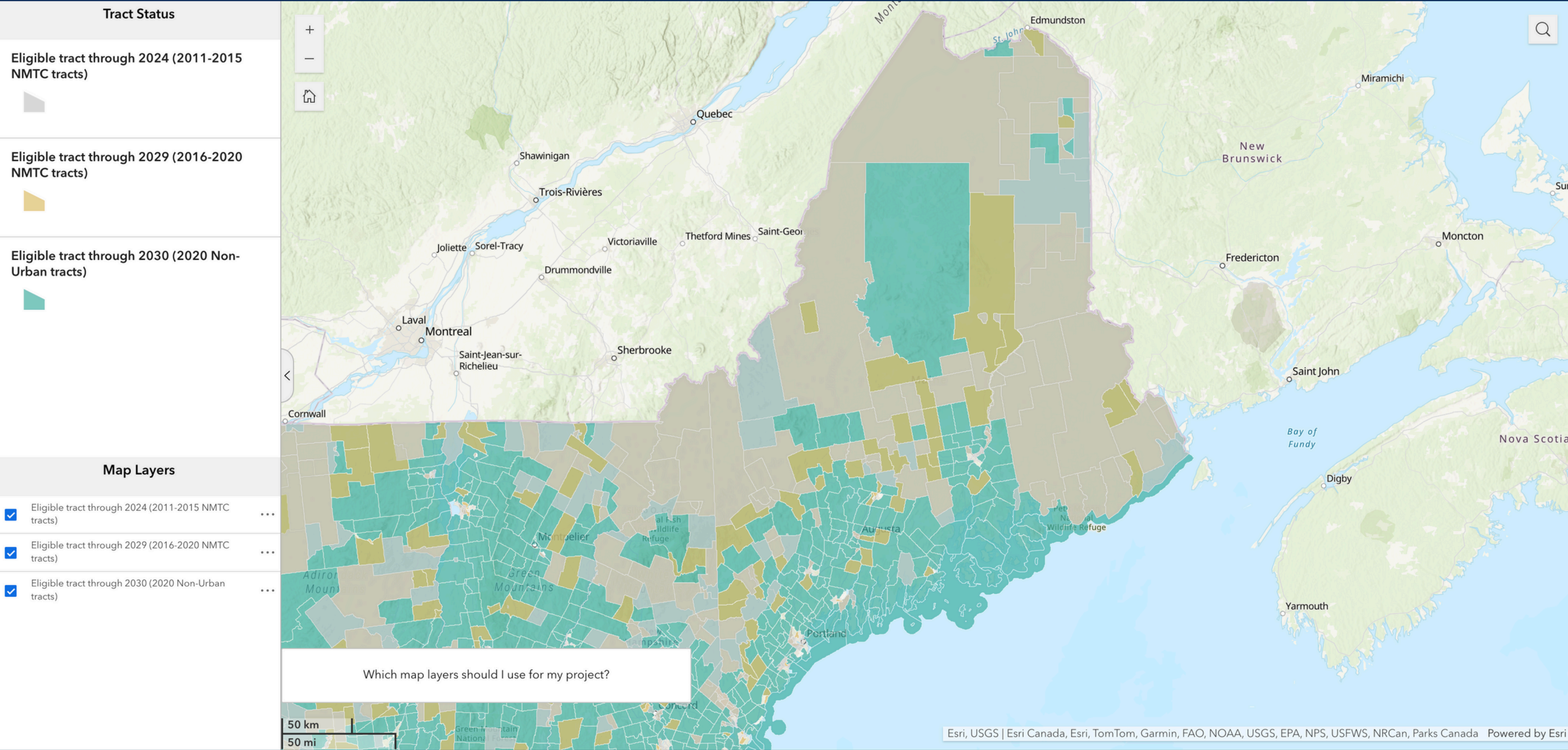
2. Renewable Energy Investment Tax Credit (“ITC”) (48)

- Replaced by Clean Electricity Investment Credit (48E) in 2025
- Value (before bonus credits): **6% or 30%** of total project cost
 - For projects ≥ 1 MW, installer must comply with Prevailing Wage & Apprenticeship (PWA) rules to receive 30% credit, otherwise value = 6%.
 - Projects <1 MW are exempt from PWA rules.
- Used for e.g., solar, wind, geothermal
- One time payment (vs. Production Tax Credit, which is paid over time)

Top Tax Credits for Direct Pay Eligible Entities

3. EV Charging Infrastructure Tax Credit (30C)

- Value: **6% or 30%** of total project cost, up to \$100,000 per charger
 - Installer must comply with PWA rules to receive 30% credit, otherwise value = 6%.
- One time payment
- Rural and low-income areas only - check [map](#) for eligibility



Prevailing Wage & Apprenticeship Rules

- **4 components**

1. Pay - Must meet prevailing wage specific to the location of the project
2. Labor Hours - Min. 15% of hours worked must be by apprentices from certified programs
3. Apprentices Ratio - Must meet applicable ratio of apprentices to journeyworkers established by the registered apprenticeship program
4. Participation - Any taxpayer, contractor, or sub-contractors with 4+ employees must hire at least 1 apprentice

- **Exceptions:**

- ITC & PTC projects <1MW
- Good Faith Effort Exception - written request & no response or request denied

- **Applies to ITC, PTC, EV charging credit, among others**

- **Documentation is important**

Review the IRS FAQ on the Prevailing Wage & Apprenticeship rules [here](#).

Calculating Your Credit - Bonuses & Penalties

- **Bonus #1: Solar or wind project (<5MW) in low income & Tribal communities**
 - **Value: +10 or 20 percentage points**
 - Visit the IRS website [here](#) for more info & to apply
 - Important: Requires application to DOE & allotment (competitive & capped). Often oversubscribed.
- **Bonus #2: Project was built with certain % of steel, iron, or manufactured products that were mined, produced, or manufactured in the U.S.**
 - *If Direct Pay entities comply with these requirements:*
 - **Value: +2 percentage points on top of 6% ITC base or +10 percentage points on top of 30% ITC base**
 - *If Direct Pay entities do not comply with these requirements:*
 - **Credit reduced to 90% of credit amount in 2024, 85% in 2025, and 0% in 2026 and beyond.**
 - Exceptions: Projects < 1MW; Using domestic content increases the overall costs of construction by >25%; or Goods not produced in the United States in sufficient and reasonably available quantities or of a satisfactory quality.
 - Visit the IRS website [here](#) for more info

Calculating Your Credit - Bonuses & Penalties

- **Bonus #3: Locations with former fossil fuel infrastructure; brownfield locations**
 - **Value: +2 percentage points on top of 6% ITC base or +10 percentage points on top of 30% ITC base**
 - Projects in Maine would need to qualify via the brownfields category
 - A “brownfield site” - as defined in [certain subparagraphs of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 \(CERCLA\)](#):

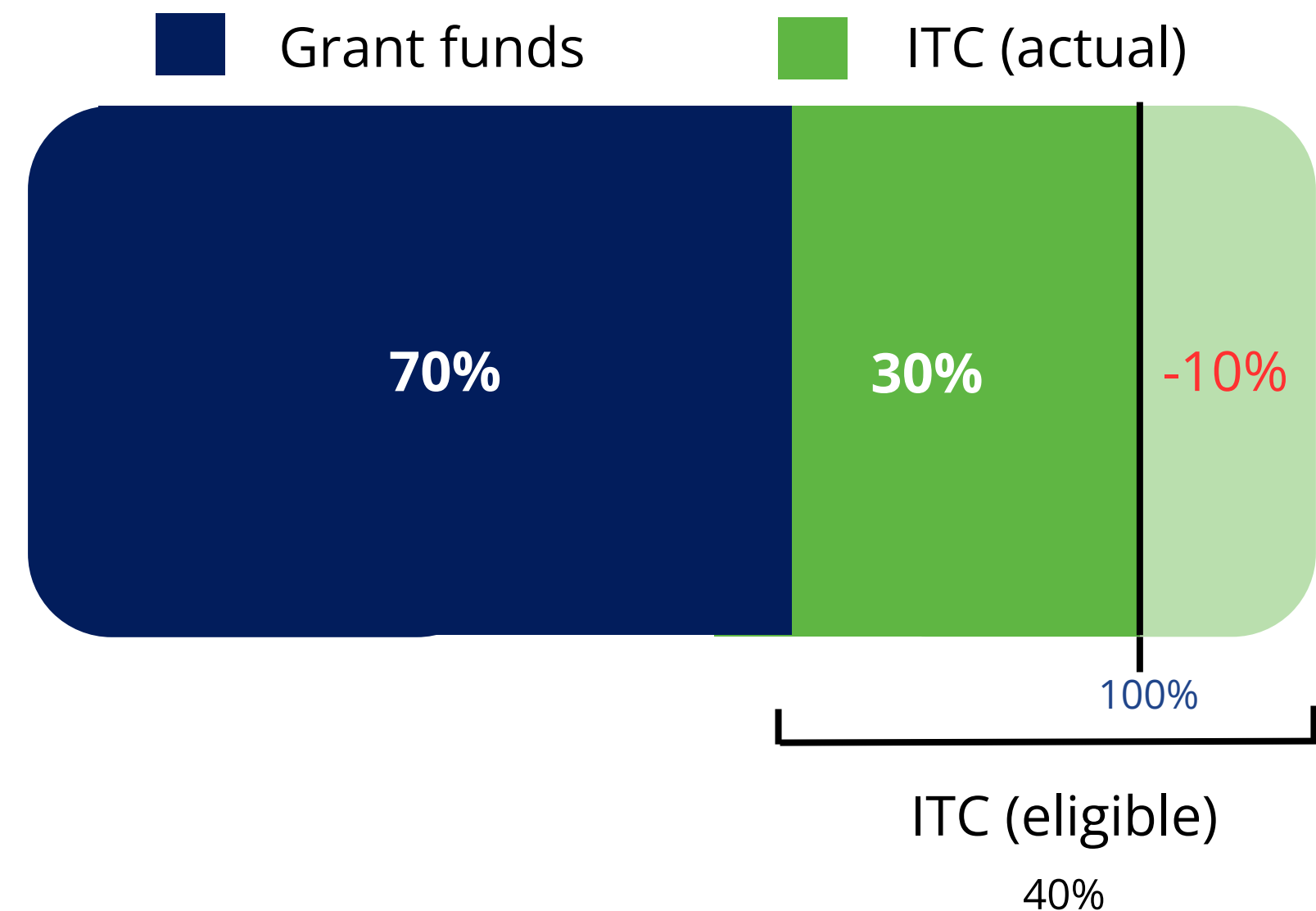
“The term “brownfield site” means real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.”
 - As of now, there are no census tracts in Maine that as locations with former fossil fuel infrastructure.
 - Any changes will be reflected on [this map](#).

Braiding Funds

Braiding Funds - Grants

No Excess Benefit Rule: Grant funds + tax credits cannot exceed 100% of project costs. Tax credit value will be reduced to ensure this is the case.

Example: If a project receives a grant covering 70% of project costs, the project may be eligible for a 40% Investment Tax Credit, but the actual credit received would be reduced to 30% so as not to exceed 100% of project costs.

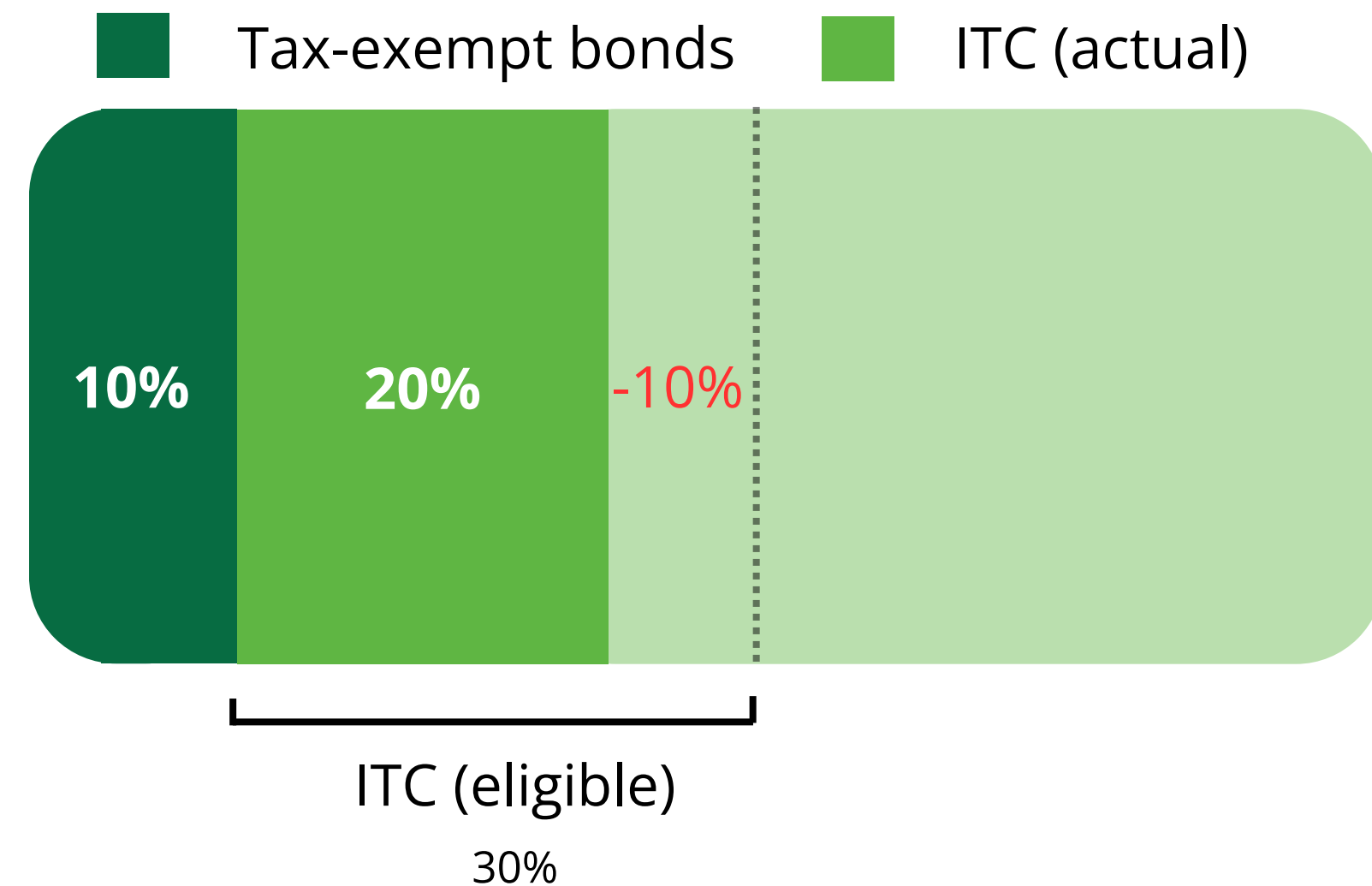


Braiding Funds - Tax-Exempt Bonds

Tax-Exempt Bonds Restrictions - Using tax-exempt bonds to finance a project triggers a reduction in the value of the tax credit.

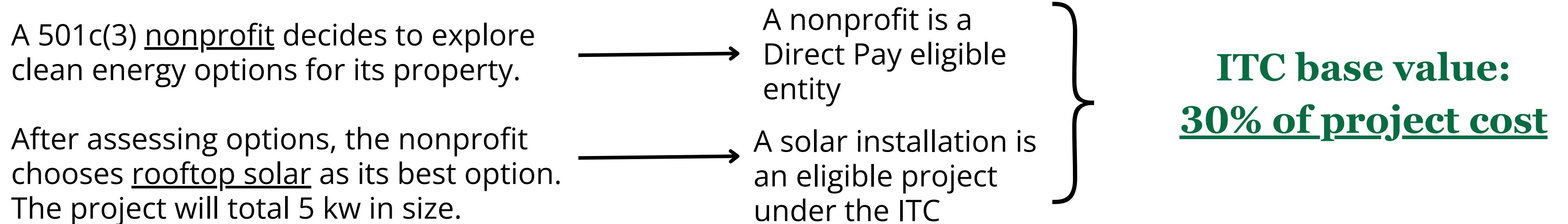
Reduction equal to % of project financed with tax-exempt bonds, up to **15% maximum**.

Example: Project uses a tax exempt bond to cover 10% of project costs. The project is eligible for a 30% ITC. The credit is reduced by the portion of the project financed with tax-exempt bonds (10%), resulting in a 20% credit.



Direct Pay Examples

Example #1 - Investment Tax Credit (ITC) for project <1MW



This is because projects under 1MW in size do not need to meet the Prevailing Wage and Apprenticeship requirements to receive the 30% ITC.

Example #2 - Investment Tax Credit (ITC) for project $\geq 1\text{MW}$

A large community college decides to explore clean energy options for its campus.

After conducting an energy assessment, the college chooses geothermal as its best option. The project will install geothermal across a large campus, so the project will total $\geq 1\text{MW}$.

→ A community college is a Direct Pay eligible entity

→ A geothermal system is an eligible project under the ITC

**Investment Tax
Credit base value:
6% of project cost**

Example #2 - Investment Tax Credit (ITC) for project $\geq 1\text{MW}$

A large community college decides to explore clean energy options for its campus.



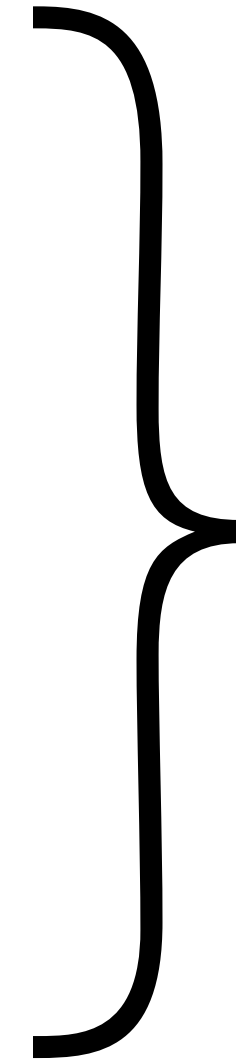
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After issuing an RFP, the college selects an installer that meets prevailing wage & apprenticeship requirements.



Meeting PWA requirements increases 6% Investment Tax Credit by 5x



30% of project cost

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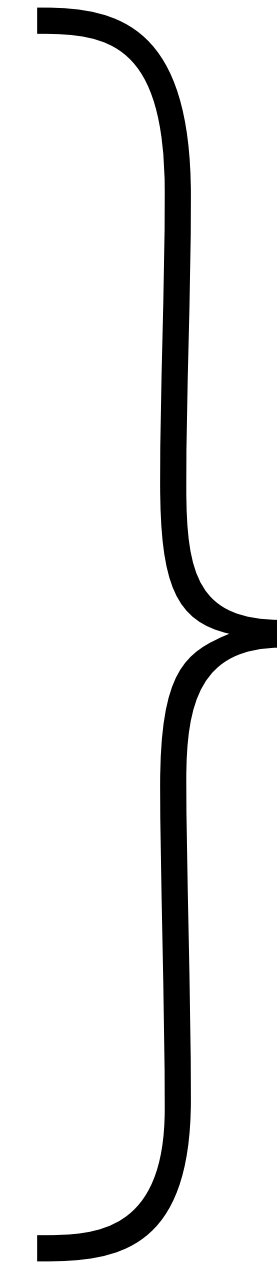
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After issuing an RFP, the college selects an installer that meets prevailing wage & apprenticeship requirements.

The installer uses equipment that meets the domestic content requirements.



Meeting PWA requirements increases 6% Investment Tax Credit by 5x



30% of project cost

**+10 percentage points
40% of project cost**

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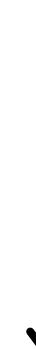
A geothermal system is an eligible project under the ITC

After issuing an RFP, the college selects an installer that meets prevailing wage & apprenticeship requirements.

The installer uses equipment that meets the domestic content requirements.

This project is on a brownfield site, meeting the required definition for the Energy Communities bonus credit.

Meeting PWA requirements increases 6% Investment Tax Credit by 5x



30% of project cost

+10 percentage points
40% of project cost

+10 percentage points
50% of project cost

Q&A

Contact us

If you are an eligible entity with a project that you think might be eligible, fill out [this form](#) or send an email to DirectPayTaxQuestions@maine.gov