Photo credit: Perkins Eastman

Inflation Reduction Act & Schools:

New federal funding for healthy, sustainable, cost-effective schools in Maryland

December 4, 2023

Who we are

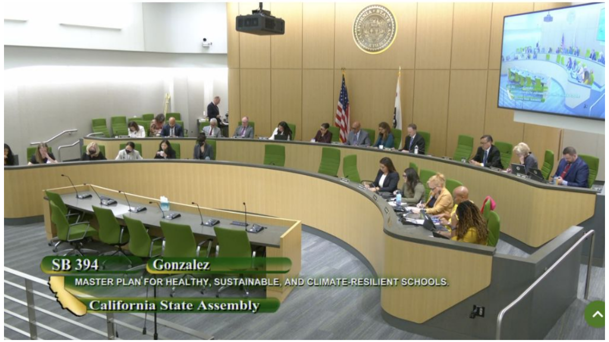
UNDAUNTEDK12

Our mission is to support America's K-12 public schools to make an equitable transition to zero carbon emissions while preparing our youth to build a sustainable future in a rapidly changing climate.

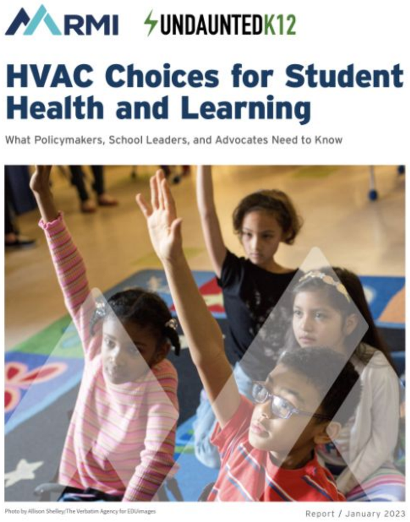
- Healthy buildings, healthy communities
- Equity & justice
- Jobs today & tomorrow
- Leading by example

How we work

Policy development & advocacy



Thought leadership


RMI
UNDAUNTEDK12

HVAC Choices for Student Health and Learning

What Policymakers, School Leaders, and Advocates Need to Know

Report / January 2023

Awareness building

Coalition building

New web resources for the Inflation Reduction Act

UNDAUNTEDK12

Inflation Reduction Act | Our Latest | Where We Work | In the News | Solutions Center | About

The Inflation Reduction Act (IRA) is the largest **investment in climate and clean energy in United States history**. Billions of dollars are now available to schools for going green.

THE INFLATION REDUCTION ACT brings new federal funding to schools that embrace clean energy!	**WHAT** clean energy technologies does the Inflation Reduction Act support?	**WHY** should schools invest in clean energy technologies?	**WHO** benefits from the Inflation Reduction Act?	**HOW** do schools get reimbursed by the Federal government?

https://www.undauntedk12.org/schools-and-the-ira

The context for IRA funding

ESSER/ARP
Mar 2021

Bipartisan Infrastructure Law
Dec 2021

Inflation Reduction Act
Aug 2022

Grants

Tax Benefits

Financing

Largest opportunity (available today) is the tax benefits

ESSER/ARP
Mar 2021

Bipartisan Infrastructure Law
Dec 2021

Inflation Reduction Act
Aug 2022

- Grants
- Tax Benefits
- Financing

What’s so special about the IRA’s tax credits?

Non-competitive

Cash reimbursement

Available until 2033+

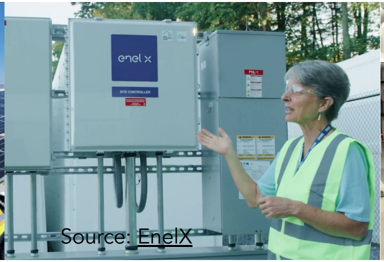
Unlimited funding

Tax credits available for this clean energy equipment

1. Solar energy


Source: Generation180

2. Energy storage



Source: EnelX

3. Ground-source heat pumps

4. Electric school buses

5. EV charging equipment

Sec 48:
Investment Tax Credit

Sec 45W:
Commercial Clean Vehicle Tax Credit

Sec 30C:
Alternative Fuel Refueling Property

Let's work through an example: ground-source heat pumps

A quick orientation to heat pumps as a "better mousetrap" for your school buildings.

Oil/gas boiler	**Heat pump**
Burns fossil fuels on-site	No on-site fossil-fuel combustion
~87% efficient	~200%-600% efficient
Need additional system for cooling	Provides heating *and* cooling
	Can operate using low-cost, fixed-cost solar energy

What is the amount of my credit?

Cost Basis $ x

Rate % x

Reduce for Tax-Exempt Financing % =

——--

Value of Investment Tax Credit

Determining the cost basis. We have experience.

IRS Guidance
Notice 2018-59
“Geothermal Heat Pump Property - On-site physical work of a significant nature may include the installation of ground heat exchangers, heat pump units, or air delivery systems (ductwork).”

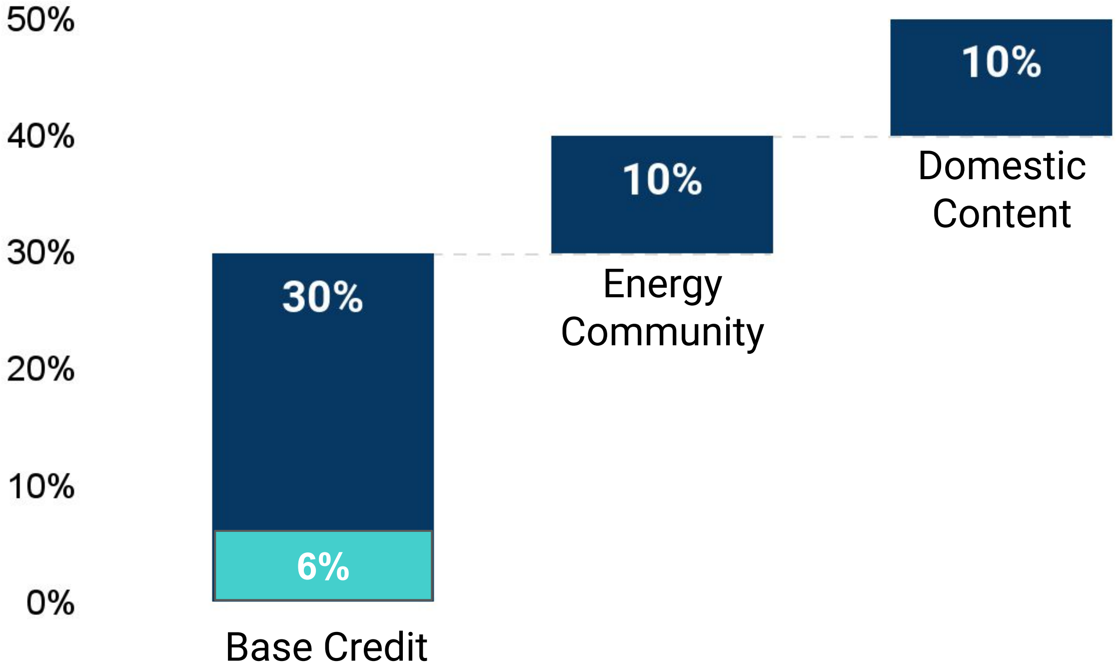
From Industry Association based on past experience of members:
Federal financial incentives include every part of the mechanical systems required to make a complete package including wells, distribution piping, electrical, controls, heat pump equipment, all required peripherals (pumps and VFD's, etc.) and labor.

A.M. Fogarty & Assoc., Inc.
175 Derby St., Suite 5, Hingham, MA 0204
TEL: (781) 749-7272 • FAX: (781) 740-2652
ptim@amfogarty.com
"Construction Cost Consultants"

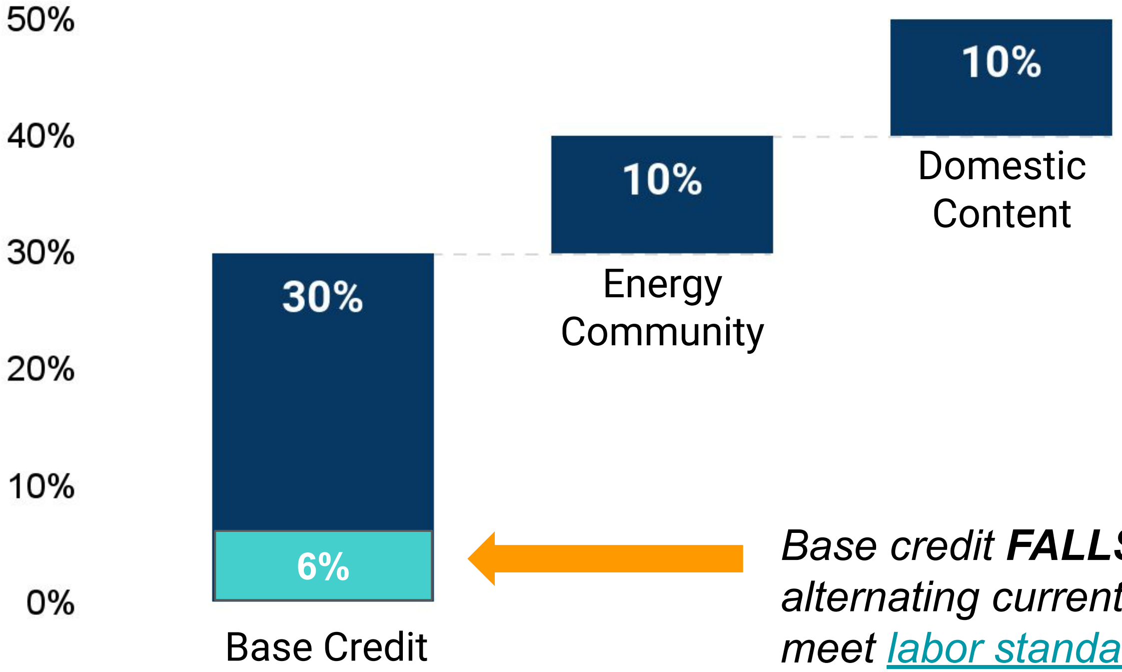
D20 - PLUMBING	$2,454,125
D30 - HVAC	$11,264,869
D50 - ELECTRICAL	$7,910,861

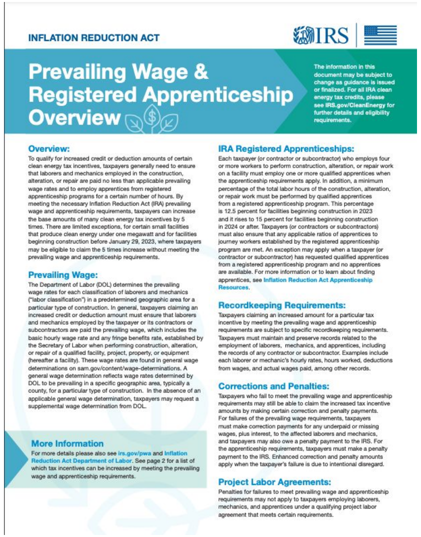
Determine relevant costs from HVAC, plumbing and electrical scopes based on past guidance and experience.

Understanding the project's rate. Bonus credits may apply.



Know the 1 MW test & implications for labor standards





INFLATION REDUCTION ACT

Prevailing Wage & Registered Apprenticeship Overview

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.

Overview:
To qualify for increased credit or deduction amounts of certain clean energy tax incentives, taxpayers generally need to ensure that laborers and mechanics employed in the construction, alteration, or repair are paid no less than applicable prevailing wage rates and to employ apprentices from registered apprenticeship programs for a certain number of hours. By meeting the necessary Inflation Reduction Act (IRA) prevailing wage and apprenticeship requirements, taxpayers can increase the base amounts of many clean energy tax incentives by 5 times. There are limited exceptions, for certain small facilities that produce clean energy under one megawatt and for facilities beginning construction before January 29, 2023, where taxpayers may be eligible to claim the 5 times increase without meeting the prevailing wage and apprenticeship requirements.

Prevailing Wage:
The Department of Labor (DOL) determines the prevailing wage rates for each classification of laborers and mechanics ("labor classification") in a predetermined geographic area for a particular type of construction. In general, taxpayers claiming an increased credit or deduction amount must ensure that laborers and mechanics employed by the taxpayer or its contractors or subcontractors are paid the prevailing wage, which includes the basic hourly wage rate and any fringe benefits rate, established by the Secretary of Labor when performing construction, alteration, or repair of a qualified facility, project, property, or equipment (hereafter a facility). These wage rates are found in general wage determinations on sam.gov/content/wage-determinations. A general wage determination reflects wage rates determined by DOL to be prevailing in a specific geographic area, typically a county, for a particular type of construction. In the absence of an applicable general wage determination, taxpayers may request a supplemental wage determination from DOL.

More Information
For more details please also see irs.gov/pwa and Inflation Reduction Act Department of Labor. See page 2 for a list of which tax incentives can be increased by meeting the prevailing wage and apprenticeship requirements.

IRA Registered Apprenticeships:
Each taxpayer (or contractor or subcontractor) who employs four or more workers to perform construction, alteration, or repair work on a facility must employ one or more qualified apprentices when the apprenticeship requirements apply. In addition, a minimum percentage of the total labor hours of the construction, alteration, or repair work must be performed by qualified apprentices from a registered apprenticeship program. This percentage is 12.5 percent for facilities beginning construction in 2023 and it rises to 15 percent for facilities beginning construction in 2024 or after. Taxpayers (or contractors or subcontractors) must also ensure that any applicable ratios of apprentices to journey workers established by the registered apprenticeship program are met. An exception may apply when a taxpayer (or contractor or subcontractor) has requested qualified apprentices from a registered apprenticeship program and no apprentices are available. For more information or to learn about finding apprentices, see Inflation Reduction Act Apprenticeship Resources.

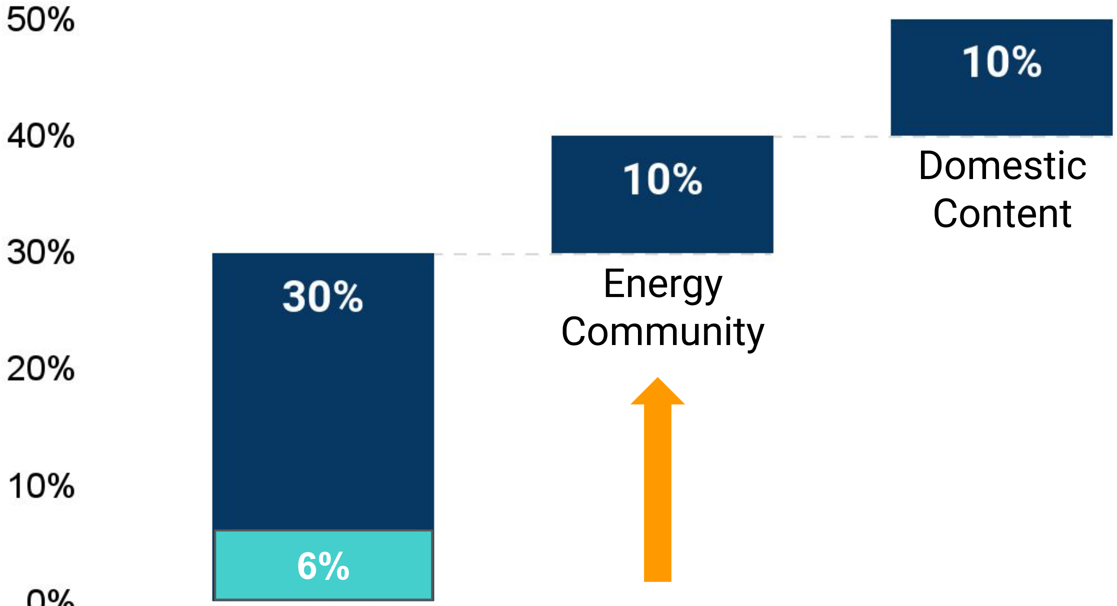
Recordkeeping Requirements:
Taxpayers claiming an increased amount for a particular tax incentive by meeting the prevailing wage and apprenticeship requirements are subject to specific recordkeeping requirements. Taxpayers must maintain and preserve records related to the employment of laborers, mechanics, and apprentices, including the records of any contractor or subcontractor. Examples include each laborer or mechanic's hourly rates, hours worked, deductions from wages, and actual wages paid, among other records.

Corrections and Penalties:
Taxpayers who fail to meet the prevailing wage and apprenticeship requirements may still be able to claim the increased tax incentive amounts by making certain correction and penalty payments. For failures of the prevailing wage requirements, taxpayers must make correction payments for any underpaid or missing wages, plus interest, to the affected laborers and mechanics, and taxpayers may also owe a penalty payment to the IRS. For the apprenticeship requirements, taxpayers must make a penalty payment to the IRS. Enhanced correction and penalty amounts apply when the taxpayer's failure is due to intentional disregard.

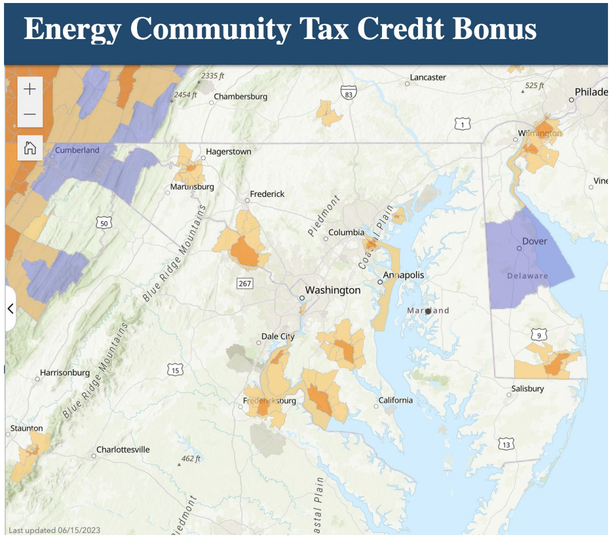
Project Labor Agreements:
Penalties for failures to meet prevailing wage and apprenticeship requirements may not apply to taxpayers employing laborers, mechanics, and apprentices under a qualifying project labor agreement that meets certain requirements.

Base credit ***FALLS*** *to 6% if > 1 megawatt alternating current (MW ac) AND does* ***NOT*** *meet [labor standards]*

Check your site location for the “energy community” bonus

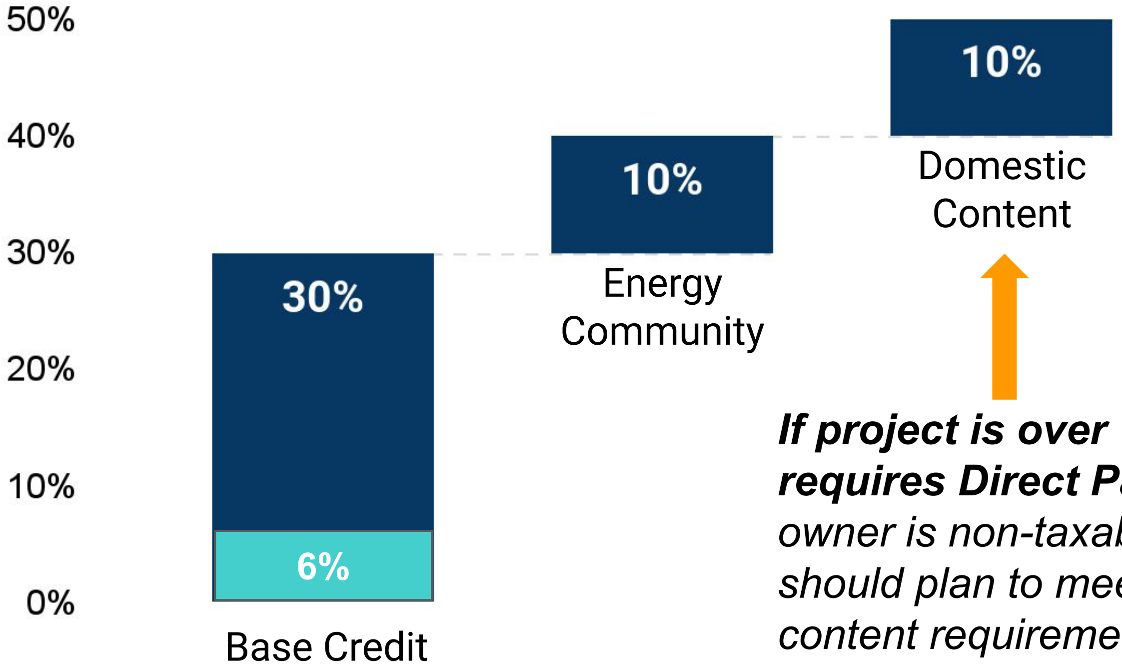


Base Credit

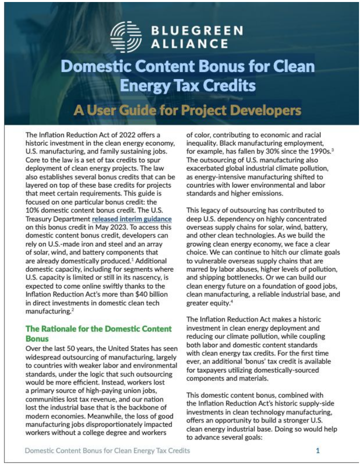


***Check your project site** at [Dept of Energy](#) to understand whether this bonus credit applies*

Domestic content will be critical if over 1 MW



If project is over 1MW and requires Direct Pay *(e.g. owner is non-taxable entity) should plan to meet domestic content requirements.*



BLUEGREEN ALLIANCE

Domestic Content Bonus for Clean Energy Tax Credits

A User Guide for Project Developers

The Inflation Reduction Act of 2022 offers a historic investment in the clean energy economy, U.S. manufacturing, and family sustaining jobs. Core to the law is a set of tax credits to spur deployment of clean energy projects. The law also establishes several bonus credits that can be layered on top of these base credits for projects that meet certain requirements. This guide is focused on one particular bonus credit: the 10% domestic content bonus credit. The U.S. Treasury Department released interim guidance on this bonus credit in May 2023. To access this domestic content bonus credit, developers can rely on U.S.-made iron and steel and an array of solar, wind, and battery components that are already domestically produced.[1] Additional domestic capacity, including for segments where U.S. capacity is limited or still in its nascency, is expected to come online swiftly thanks to the Inflation Reduction Act's more than $40 billion in direct investments in domestic clean tech manufacturing.[2]

The Rationale for the Domestic Content Bonus

Over the last 50 years, the United States has seen widespread outsourcing of manufacturing, largely to countries with weaker labor and environmental standards, under the logic that such outsourcing would be more efficient. Instead, workers lost a primary source of high-paying union jobs, communities lost tax revenue, and our nation lost the industrial base that is the backbone of modern economies. Meanwhile, the loss of good manufacturing jobs disproportionately impacted workers without a college degree and workers of color, contributing to economic and racial inequality. Black manufacturing employment, for example, has fallen by 30% since the 1990s.[3] The outsourcing of U.S. manufacturing also exacerbated global industrial climate pollution, as energy-intensive manufacturing shifted to countries with lower environmental and labor standards and higher emissions.

This legacy of outsourcing has contributed to deep U.S. dependency on highly concentrated overseas supply chains for solar, wind, battery, and other clean technologies. As we build the growing clean energy economy, we face a clear choice. We can continue to hitch our climate goals to vulnerable overseas supply chains that are marred by labor abuses, higher levels of pollution, and shipping bottlenecks. Or we can build our clean energy future on a foundation of good jobs, clean manufacturing, a reliable industrial base, and greater equity.[4]

The Inflation Reduction Act makes a historic investment in clean energy deployment and reducing our climate pollution, while coupling both labor and domestic content standards with clean energy tax credits. For the first time ever, an additional 'bonus' tax credit is available for taxpayers utilizing domestically-sourced components and materials.

This domestic content bonus, combined with the Inflation Reduction Act's historic supply-side investments in clean technology manufacturing, offers an opportunity to build a stronger U.S. clean energy industrial base. Doing so would help to advance several goals:

Domestic Content Bonus for Clean Energy Tax Credits 1

Available here: https://www.bluegreenalliance.org/resources/bluegreen-alliance-domestic-content-user-guide/

Adjust the rate if using tax-exempt bonds

Example:

(30% + 10%) = 40% less 15% = 34%

Base credit | Domestic content adder | Tax-exempt bonds

"To the extent that a project is financed with tax-exempt debt and eligible for the PTC or ITC, the amount of the tax credit is reduced by the lesser of (i) 15% or (ii) the portion of the qualifying project that has been financed with tax-exempt debt. Because this is a "lesser of" test, this allows such projects to be financed 100% with tax-exempt debt, while only reducing the direct pay tax credit by 15%."

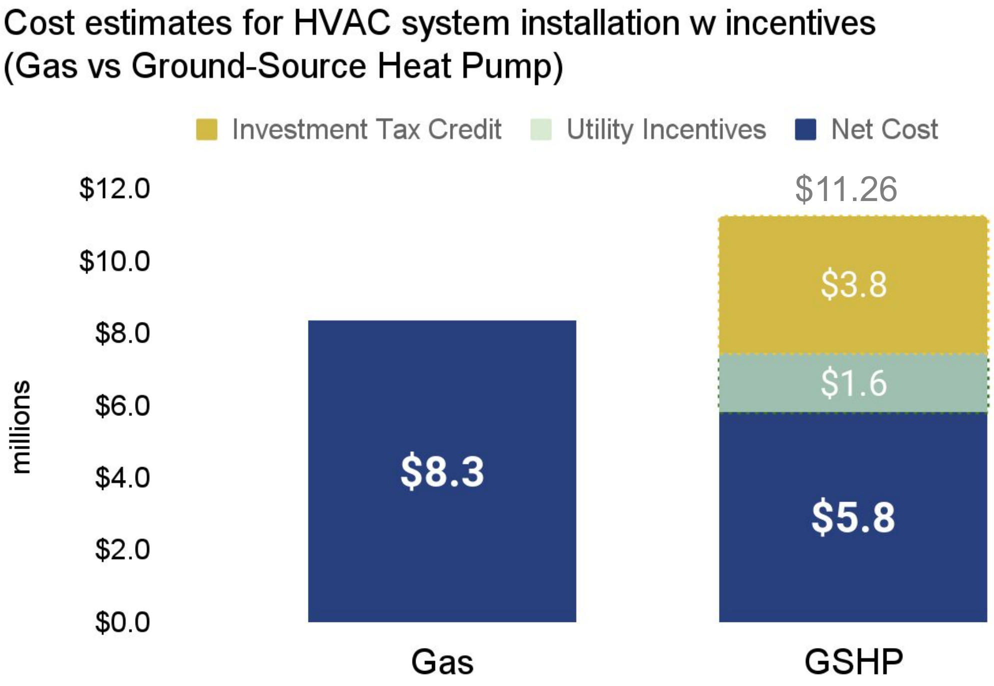
Source: JDSupra, "Inflation Reduction Act Levels Renewable Energy Playing Field for Tax-Exempt Entities" August 26, 2022

Estimated value of IRA tax benefits for a K-12 school project in MA

	Basis	x Rate	= Estimated value
Tax credit for ground-source heat pumps*	$11,264,869	34%	**$3,830,055**
Tax credit for solar	$2,310,000	25.5%	**$589,050**
Tax credit for energy storage	$500,000	25.5%	**$127,742**
Total estimated tax benefits			**$4,546,847**

* This project assumes a 280-ton GSHP systems which converts to less than 1MW-ac so project is *exempt* from labor standards and needing to meet domestic content requirements for purposes of using Direct Pay. Regardless, project plans to meet domestic content for the GSHP system and to therefore collect the 10% adder.

New incentives in context



Note: This example is for a new school construction project in Massachusetts where certain utility rebates are also available.

What is Direct Pay (aka Elective Pay)?

The IRS mechanism through which non-taxable entities (like schools!) convert tax credits to cash reimbursements.

https://www.whitehouse.gov/cleanenergy/directpay/

IRS

Elective Pay Overview

The answers to the questions below are based on proposed and temporary elective pay and transferability regulations and other tax guidance on IRS.gov. These proposed and temporary regulations and the answers below may change when these regulations are finalized following a public comment period. You may also choose to consult with a tax advisor.

What is elective pay?

Elective pay allows applicable entities, including tax-exempt and governmental entities that would otherwise be unable to claim certain credits because they do not owe federal income tax, to benefit from some clean energy tax credits. By choosing this election, the amount of the credit is treated as a payment of tax and any overpayment will result in a refund.

For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, as long as it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Who is eligible?

Applicable entities can use elective pay. Applicable entities include tax-exempt organizations, states and political subdivisions such as local governments, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, rural electric cooperatives, U.S. territories and their political subdivisions, and agencies and instrumentalities of state, local, tribal and U.S. territorial governments.

What types of businesses are eligible?

Generally, only "applicable entities" are eligible for elective pay. However, there are special rules for three of the clean energy tax credits. Specifically, other taxpayers that are not "applicable entities" may make an election to be treated as an applicable entity for elective pay with respect to the applicable credit property giving rise to

1. The section 45Q credit (credit for carbon oxide sequestration),
2. The section 45V credit (credit for production of clean hydrogen), or
3. The section 45X credit (advanced manufacturing production credit).

There are additional rules if the taxpayer is a partnership or S Corporation.

How do I make the elective payment election?

Eligible entities would claim and receive an elective payment by making an elective payment election on their annual tax return along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is strongly encouraged.

What will I need to do to receive a payment?

1. **Identify and pursue the qualifying project or activity:** You will need to know what applicable credit you intend to earn and use elective pay for.
2. **Determine your tax year, if not already known:** Your tax year will determine the due date for your tax return.
3. **Complete pre-filing registration with the IRS:** This will include providing information about yourself, which applicable credits you intend to earn, and each eligible project/property that will contribute to the applicable credit and other information required. Upon completing this process, the IRS will provide you with a registration number for each applicable credit property. You will need to provide that registration number on your tax return as part of making the elective pay election.
   - Complete pre-filing registration in sufficient time to have a valid registration number at the time you file your tax return.
   - ***More information about this pre-filing registration process will be available by late 2023.***
4. **Satisfy all eligibility requirements for the tax credit and any applicable bonus credits, if applicable, for a given tax year:** For example, to claim an energy credit on a solar energy generating project, you would need to place the project in service before making an elective payment election.
   - You will need the documentation necessary to properly substantiate any underlying tax credit, including if bonus amounts increased the credit.
5. **File the required annual tax return by the due date (or extended due date) and make a valid elective payment election.**

What tax credits can elective pay be used for?

See Publication 5817g for a list of tax credits that can be used for elective pay.

Resources

- Elective Pay and Transferability
- irs.gov/cleanenergy

Publication 5817 (6-2023) Catalog Number 94121I
Department of the Treasury **Internal Revenue Service** www.irs.gov

https://www.irs.gov/pub/irs-pdf/p5817.pdf

IRS

State & Local Governments

The answers to the questions below are based on proposed and temporary elective pay and transfer ability regulations and other tax guidance on IRS.gov. These proposed and temporary regulations and the answers below may change when these regulations are finalized following a public comment period. You may also choose to consult with a tax advisor.

What is elective pay?

Elective pay allows applicable entities, including tax-exempt and governmental entities that would otherwise be unable to claim certain credits because they do not owe federal income tax, to benefit from some clean energy tax credits. By choosing this election, the amount of the credit is treated as a payment of tax and any overpayment will result in a refund.

For example, because of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit can file an annual tax return with the IRS to claim elective pay for the full value of the investment tax credit, as long as it meets all of the requirements including a pre-filing registration requirement. As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

Are state and local governments eligible?

Yes. States, political subdivisions and their agencies and instrumentalities are all eligible for elective pay. This includes the District of Columbia. It also includes cities, counties and other political subdivisions. Water districts, school districts, economic development agencies, public universities and hospitals that are agencies and instrumentalities of states or political subdivisions are also included.

How do I make the elective payment election?

Eligible entities not normally required to file an annual tax return with the IRS should file Form 990-T along with any form required to claim the relevant tax credit.

However, there are steps leading up to this, such as a required pre-filing registration process. An EIN or TIN is required to complete the pre-filing registration process.

Electronic return filing is strongly encouraged.

What will I need to do to receive a payment?

1. **Identify and pursue the qualifying project or activity:** You will need to know what applicable credit you intend to earn and use elective pay for.
2. **Determine your tax year, if not already known:** Your tax year will determine the due date for your tax return.
3. **Complete pre-filing registration with the IRS:** This will include providing information about yourself, which applicable credits you intend to earn, and each eligible project/property that will contribute to the applicable credit and other information required. Upon completing this process, the IRS will provide you with a registration number for each applicable credit property. You will need to provide that registration number on your tax return as part of making the elective pay election.
   - Complete pre-filing registration in sufficient time to have a valid registration number at the time you file your tax return.
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   - You will need the documentation necessary to properly substantiate any underlying tax credit, including if bonus amounts increased the credit.
5. **File Form 990-T by the due date (or extended due date) and make a valid elective payment election.**

What tax credits can elective pay be used for?

See Publication 5817g for a list of tax credits that can be used for elective pay.

Resources

- Elective Pay and Transferability
- irs.gov/cleanenergy

Publication 5817-E (6-2023) Catalog Number 94133A Department of the Treasury **Internal Revenue Service** www.irs.gov

https://www.irs.gov/pub/irs-pdf/p5817e.pdf

When will the equipment owner receive payment?

July 2023

Eligible equipment put into service

Pre-filing registration with IRS

Fall 2023

No later than May 15, 2024

File Annual Tax Return - Form 990-T

District receives payment from IRS

After return is processed

Where do you go from here?

Laying the groundwork

- ❑ Put together your IRA team
- ❑ Learn and share about the IRA with your team
- ❑ Identify a budget for professional services
- ❑ Review "energy communities" map for your district

Claim credits for 2023 completed projects	Evaluate current projects for credits	Re-evaluate current projects for clean alts	Strategic planning and preparation
"Get what you got"	*"Apply the new rules of the road"*	*"Take another look"*	*"New business as usual"*

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Integrating incentives into costs at all levels

First Costs

Ensure incentives are accurately incorporated in budgets and cost estimates

Lifecycle Costs

Analyze opportunity to operate electric machines at low- and fixed-cost using solar energy

Societal Costs

Include "social costs of carbon" in financial analyses to future-proof decision-making in an evolving regulatory landscape.

Future-proofing essential in rapidly changing environment

First Costs

Ensure incentives are accurately incorporated in budgets and cost estimates

Lifecycle Costs

Analyze opportunity to operate electric machines at low- and fixed-cost using solar energy

Societal Costs

Include "social costs of carbon" in financial analyses to future-proof decision-making in an evolving regulatory landscape.

- Common practice in Fortune 500
- Boston BERDO Ordinance - Alternate compliance fee $234/ton
- New York State using $126/ton ($54 to $414)

TELL US

about a school project in your community that will leverage the IRA

Complete this quick form:
https://forms.gle/UYfWVjKLigaL7V8d9

Want more on IRA and zero energy buildings?

Inflation Reduction Act

- Schools and the IRA including 5 Actions to Get Started - our web resources
- Schools Can Use These Little-Known, Unlimited Funds... - Article in EdWeek
- Inflation Reduction Act - 90-min webinar from Eversource's Zero Energy Buildings Conference

HVAC System Choices / Ground-Source Heat Pumps

- HVAC Choices for Student Health & Learning - report with RMI for non-technical audiences
- Ground Source Heat Pumps - Eversource Zero Energy Buildings Conference
- Making Climate Smart HVAC Investments - webinar in partnership w AASA

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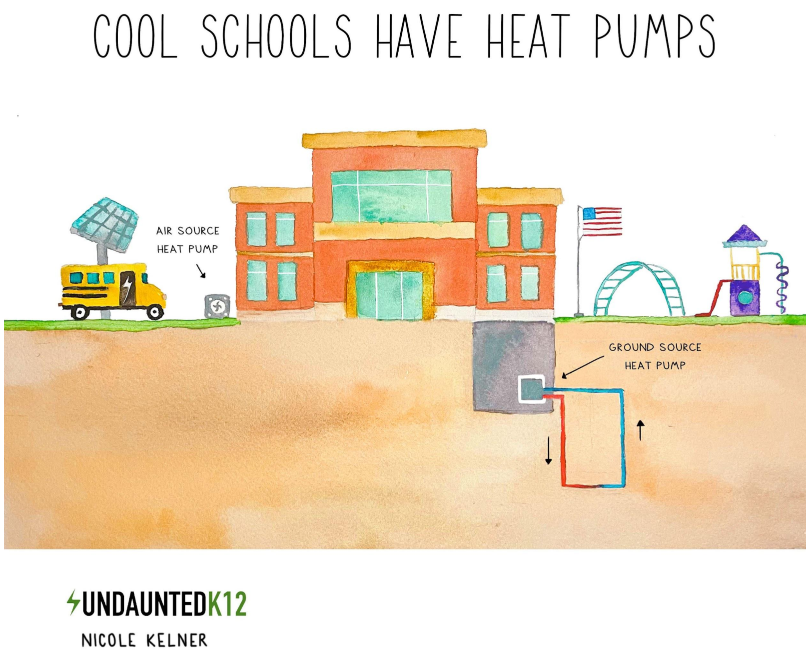

Questions?

Sarah Heine
sarah.heine@undauntedk12.org

Thank you!

Appendix A: Next steps for taking action

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Claim credits for completed 2023 projects

1. Discuss IRA opportunities with all relevant project managers, designers, CM's, and vendors
2. Review recent work to identify all qualifying clean energy equipment put into service in 2023
3. For each piece of 2023 qualifying equipment, gather relevant documentation (e.g. size, location, relevant bonus credits)
4. Estimate the value of clean energy tax credits
5. Clarify treatment of expected revenue with relevant parties
6. Complete pre-filing with the IRS in Fall 2023 for each qualifying equipment
7. File your 990-T with the IRS before May 15, 2024
8. Consider hiring a tax professional with renewable energy tax credit experience (*likely **not** your current tax professional)

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Evaluate current projects for credit eligibility

1. Review current projects to identify all qualifying clean energy equipment planned in current projects
2. Understand where your projects falls against 1 MW test
3. Understand whether your project is located in an energy community
4. Understand what role labor standards and domestic content are likely to play in your project
5. Discuss IRA opportunities with all relevant project managers, designers, CM's, and vendors
6. Estimate the value of credits for current
7. Include appropriate language related to IRA provisions (e.g. domestic content, labor provisions) in project documents (e.g. RFQs)

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Re-evaluate current projects for clean energy alts

1. Discuss IRA opportunities with all relevant project managers, designers, CM’s, and vendors
2. Determine what current projects could be enhanced with clean energy equipment? (e.g. ground-source heat pumps rather than gas boiler? add solar? energy storage?)
3. Explore opportunity for tax credits on one piece of clean energy equipment unlock additional investment - maybe even in additional clean energy? (e.g. tax credit on GSHP can pay for solar)
4. Discuss implications of potential changes with utility partners
5. Understand what new incentives for clean energy equipment from other sources may exist? (e.g. geo-REC, 5% for net zero, MEA grants)

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Appendix B: Additional detail on clean energy tax credit provisions

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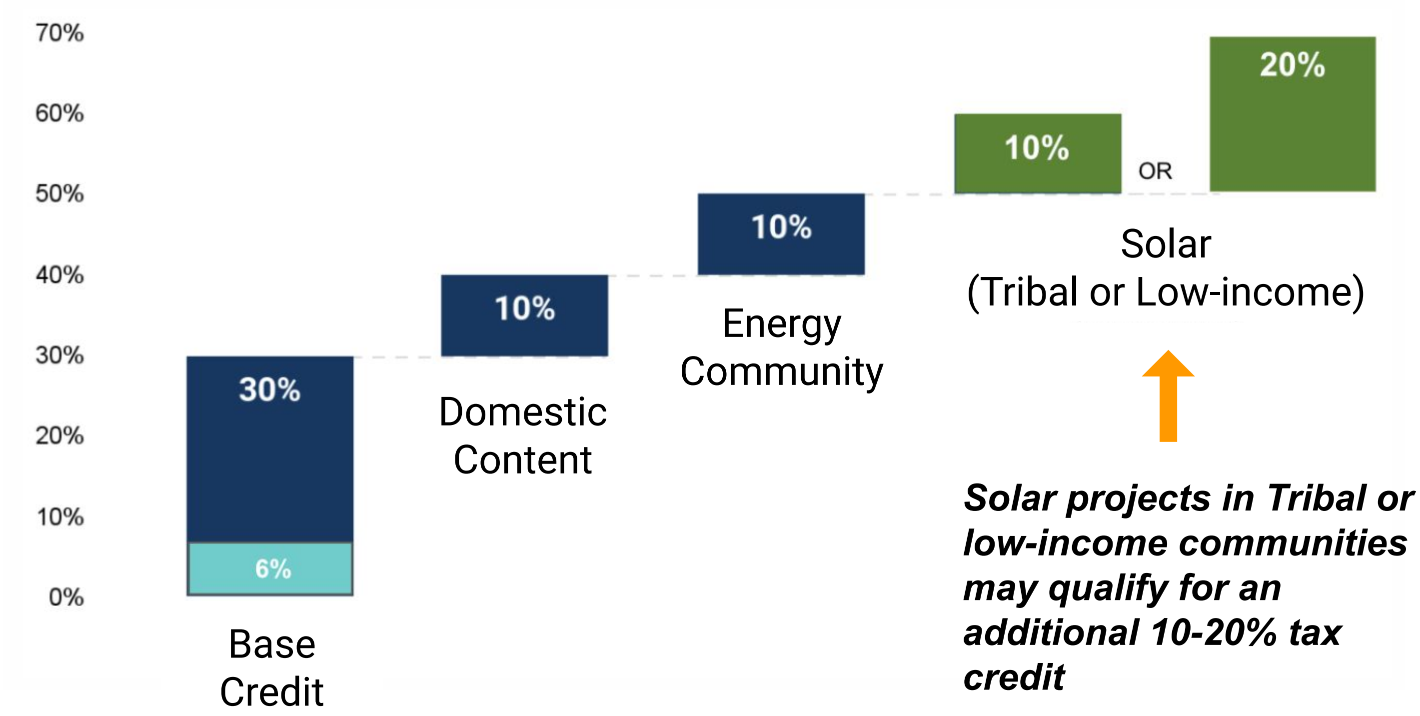
Solar projects may qualify for an additional 10-20% low income bonus



Solar projects in Tribal or low-income communities may qualify for an additional 10-20% tax credit

Available here:
https://www.energy.gov/justice/low-income-communities-bonus-credit-program

Commercial Clean Vehicle Credit (Sec. 45W) for ESB

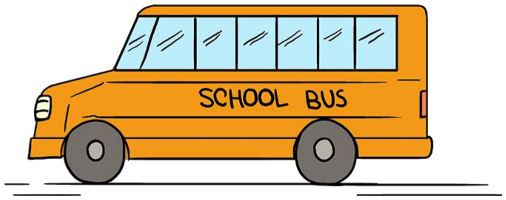
Amount: Up to $40,000 which is lesser between:

- 30% of the cost of an electric school bus _OR_
- The incremental cost between an electric and a diesel school bus

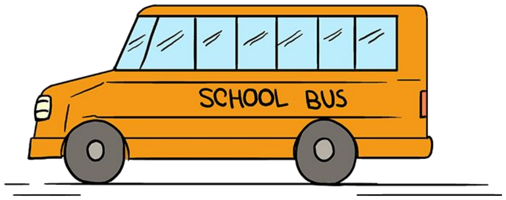
Can be combined with other funding: including other tax exempt grants and loans, such as funding from the EPA Clean School Bus Program

- Funding from grants and loans will be considered income that impacts total tax credit
- The sum of the [tax credit] + [tax-exempt funding] cannot exceed the total cost of the ESB

Illustration of third-party money



Both school buses are priced at $400,000 (meaning that $400k is the cost basis)



$400,000 – GRANT
+ $40,000 – 45W TAX CREDIT

$440,000 - exceeds cost basis

*tax credit reduced to $0

$300,000 – GRANT
+ $40,000 – 45W TAX CREDIT
+ $100,000 – other unrestricted funds

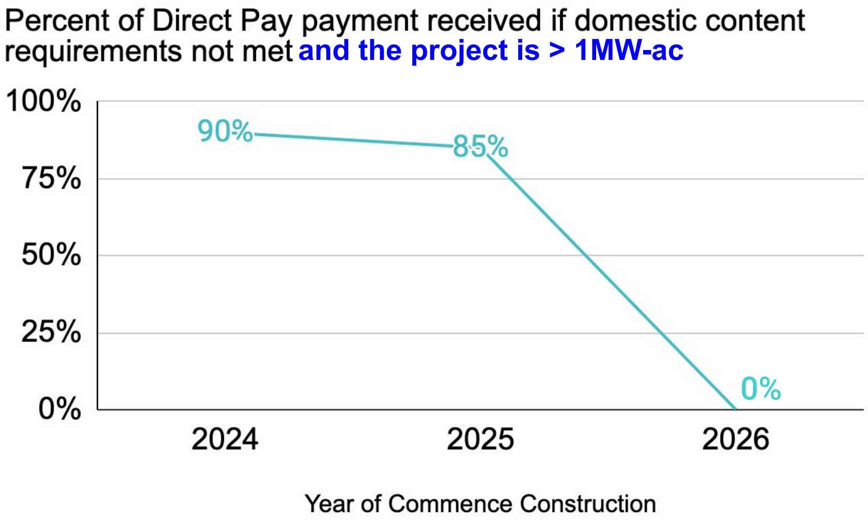
$340,000 – less than cost basis

*tax credit not reduced

Electric School Bus INITIATIVE

Domestic content & Direct Pay

For projects over 1MW that commence construction in 2024 or later, meeting the domestic content thresholds will be required to receive the full amount of the credit through Direct Pay.



https://www.bluegreenalliance.org/resources/making-clean-energy-tax-credits-deliver-for-the-public-a-user-guide-for-governments-schools-and-nonprofits/

Appendix D: Understanding project dates

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Two key concepts for understanding project milestones

Commence Construction

Two pathways:

- Physical Work Test
- Five Percent Safe Harbor

plus continuity of work.

Read details at: IRS Notice 2018-59

System in Service

When the property is ready and available for use.

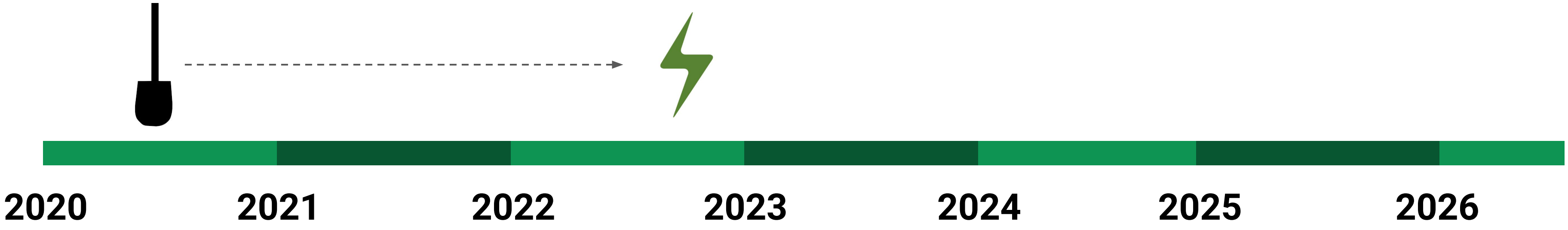
Consult counsel on these generally understood interpretations:

- For solar, date of energization
- For ground-source heat pump, system commissioning is complete

Understanding project dates in context

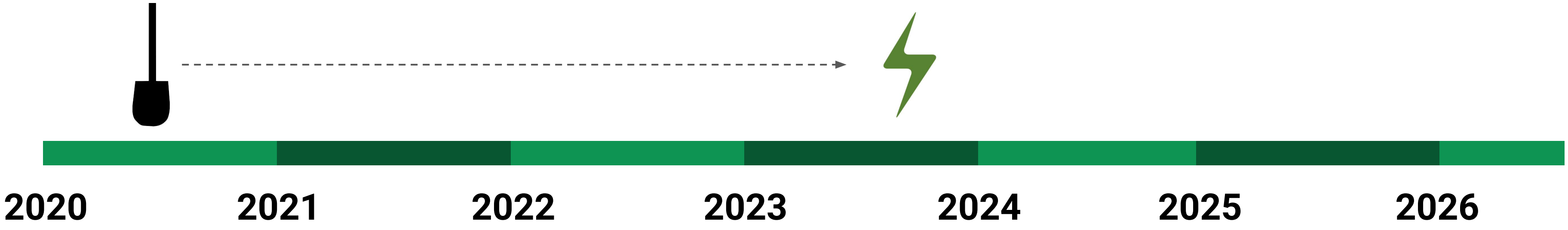
Commence Construction

System in Service



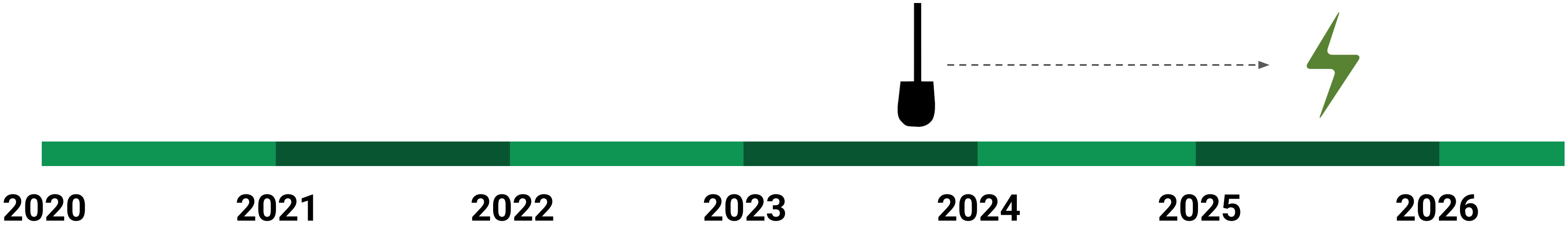
➔ System put into service prior to January 1, 2023 so **not eligible** for Direct Pay.

Understanding project dates in context



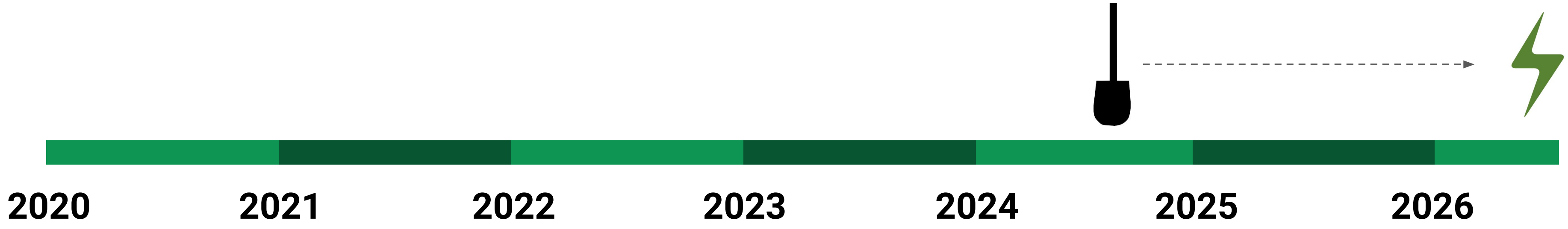
- ➔ System put into service after January 1, 2023 so non-taxable entity is **eligible** for clean energy tax credits payable through Direct Pay.
- ➔ The value of tax credits is **not** impacted by the labor provisions because the project commenced construction before January 29, 2023.

Understanding project dates in context



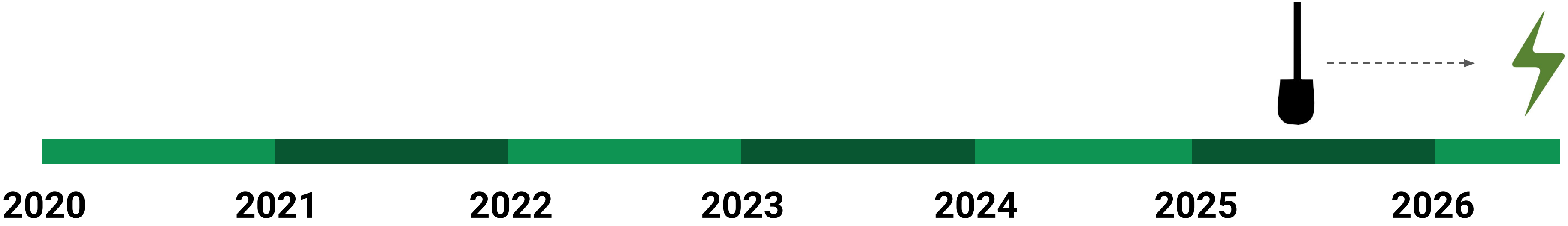
- ➔ System put into service **after** January 1, 2023 so non-taxable entity is **eligible** for clean energy tax credits payable through Direct Pay.
- ➔ If greater than **1MW**, the value of the tax credits **will be impacted** by labor provisions because the project commenced construction **after** January 29, 2023.
- ➔ Because the project commenced construction in **2023**, failing to meet domestic content will not reduce the expected tax credits. The 10% domestic content adder is available.

Understanding project dates in context



- ➔ System put into service **after** January 1, 2023 so non-taxable entity is **eligible** for clean energy tax credits payable through Direct Pay.
- ➔ If greater than **1MW**, the value of the tax credits **will be impacted** by labor provisions because the project commenced construction **after** January 29, 2023.
- ➔ If the project does **not** meet domestic content provisions, it will only receive **90%** of the expected tax credit through Direct Pay because it commenced construction in **2024**.

Understanding project dates in context

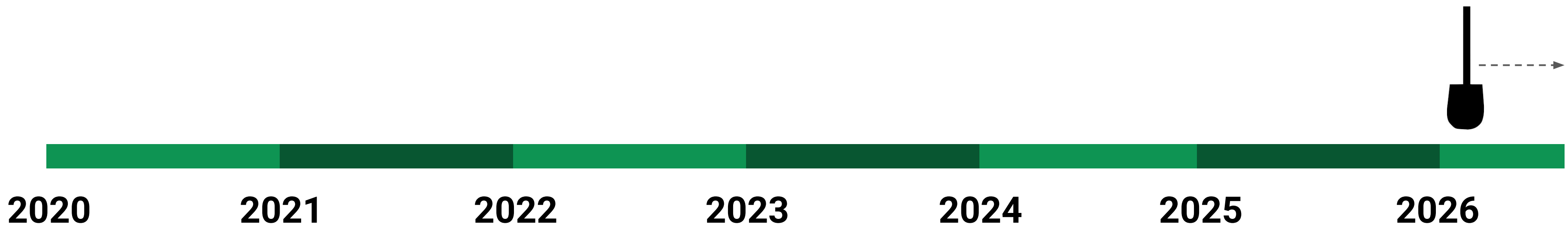


- ➔ System put into service **after** January 1, 2023 so non-taxable entity is **eligible** for clean energy tax credits payable through Direct Pay.
- ➔ If greater than **1MW**, the value of the tax credits **will be impacted** by labor provisions because the project commenced construction **after** [January 29, 2023](#).
- ➔ If the project does **not** meet domestic content provisions, it will only receive **85%** of the expected tax credit through Direct Pay because it commenced construction in **2025**.

Understanding project dates in context

Commence Construction

System in Service



➔ System put into service **after** January 1, 2023 so non-taxable entity is **eligible** for clean energy tax credits payable through Direct Pay.

➔ If greater than **1MW**, the value of the tax credits **will be impacted** by labor provisions because the project commenced construction **after** January 29, 2023.

➔ If the project does **not** meet domestic content provisions, it will only receive **0%** of the expected tax credit through Direct Pay because it commenced construction in **2026**.