

What Nonprofits Need to Know When Applying for Direct Pay

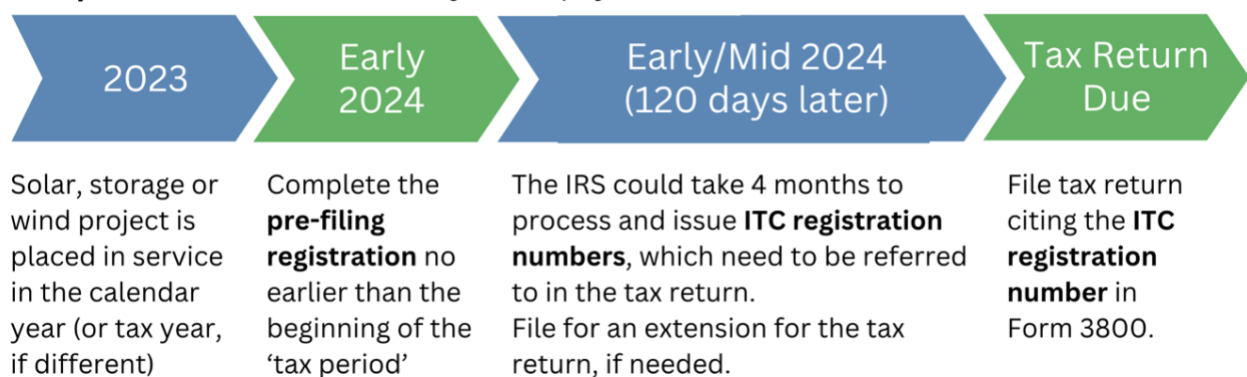
Anna Adamsson
Clean Energy Group
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Direct pay, also referred to as elective pay, enables tax-exempt entities to receive payment equal to the full value of the Investment Tax Credit (ITC) and its bonus credits after a clean energy project has been placed in service. This new provision from the Inflation Reduction Act will allow nonprofit organizations, states, local governments, and Tribal Nations, among others to more fully participate in the benefits of clean energy. Direct pay allows these entities to receive payment equal to the full value of tax credits for building clean energy projects.

This document seeks to provide a roadmap of the key steps to receive direct pay reimbursement for the ITC and an easy way to track progress through those steps to ensure no deadlines are missed. The key milestones are outlined in the sample timeline shown below. A **customizable timeline** with additional guidance specific to each step is available on Page 2. Refer to Page 3 for additional information and resources.

Taxpayers that follow the calendar year (e.g., the tax year runs from January to December and the deadline to file taxes is on May 15) are referred in the customizable timeline as calendar year (CY) taxpayers. Most tax-exempt and governmental entities fall into this category.

Sample Timeline for calendar year taxpayers



For taxpayers that do not have an annual return filing requirement, visit [Elective Pay and Transferability Frequently Asked Questions: Elective Pay](#) Questions 20 through 23.

Note:

This document does not constitute professional tax advice, nor should it be used as the only source of information when making decisions. Refer to the IRS guidance on Elective Pay.

Tracking the Direct Pay Application Process: A Customizable Timeline

Action Item	Timeline	More information
Project placed in service	Placed in service (year): -----	The project must first be placed in service (defined in Section 2.06 of IRS Notice 2023-17) before it can apply for direct pay reimbursement. Only projects placed in service after the start of the 2023 tax year are eligible. (EX for non-CY taxpayers: if the project was placed in service on 1/2023, but the entity's tax year begins on 7/2023, then the project is not eligible).
Submit pre-filing registration with IRS	Target Date of Submission: -----	The IRS recommends filing at least 120 days before your tax return due date. This allows time for the taxpayer to respond if the IRS requires additional information or clarification before issuing the registration number. The filing can only be amended after a prior submission has been processed by the IRS and returned. EX: For CY taxpayers in 2024, January 16 is 120 days before May 15. If CY taxpayers file an extension, July 18 is 120 days before November 15, 2024.
	Date of Submission: -----	
Receive pre-filing registration number from IRS	Expected by: -----	Add 120 days to the date you submitted the pre-filing registration to approximate when the pre-filing process may be completed. Note: the IRS may respond (and request a response) sooner. The IRS communicates exclusively through the Pre-Filing Registration tool. During registration, you can choose to opt in to receive email communications about status updates.
File tax return	Tax return deadline: -----	To make the elective payment election on your tax return, you must fill out Form 3800 (citing the registration number received through pre-filing) and provide any additional required documentation and underlying source credit forms.
Receive direct pay reimbursement	Received: -----	Payments occur after your return is processed. Under the statute, entities aren't entitled to the direct payment until the due date of the return. You will receive the payment either electronically or via mail.

Filing an Extension

File tax return, with extension	Deadline to file extension: -----	To apply for an extension, use the form identified in the instructions for your form of annual return. *Government entities including Tribal governments that cannot currently use Form 8868 (to apply for an extension to file Form 990-T) will receive a paperless automatic 6-month extension at the time they submit the pre-filing registration process. EX: CY taxpayers that file a 6-month extension would have till November 15 to file their taxes.
	Tax return deadline: -----	

Example of how to use the Customizable Timeline for your project

Written in March	Project placed in service	Submit pre-filing registration with IRS	Receive pre-filing registration number	File tax return	Receive direct pay reimbursement
	2023	Target: April 30 Submitted: TBD	Expected by: TBD	Nov. 15	TBD
<p>Note from the sample project: I plan to submit the pre-filing registration with the IRS by the end of April. My normal tax deadline is May 15, but I've decided to file for an extension to give the IRS the recommended 120 days to review my registration.</p>					
Updated in April	Project placed in service	Submit pre-filing registration with IRS	Receive pre-filing registration number	File tax return	Receive direct pay reimbursement
	2023	Target: April 30 Submitted: 4/22	Expected by: 8/20	Nov. 15	TBD
<p>Note from the sample project: We aimed to file by 4/30/24, but we got it done early! 120 days after 4/22 (the date we filed) is 8/20. We should hear from the IRS by that date, but I'll check periodically before then. Once we have the registration number, we can file our tax return.</p>					

The IRS published a [Pre-Filing Registration Tool User Guide](#). Here's how it's helpful:

- The IRS guide walks taxpayers through the process of logging in (or creating a new) IRS account and authorizing a user to access Energy Credits Online – the platform to file for the ITC. This guidance begins on Page 7 and continues through Page 12.
- The IRS guide directs users on how to access the right forms (there are 12 different tax credits each requiring different steps). This information is on Pages 13-17.
The ITC is referred to as (48) Energy Credit.
- The IRS guide details the information required in the form including:
 - general (entity) information (on Pages 20-29)
 - credit specific information for those applying to the ITC (on Pages 39-43)
 - supporting documentation (Pages 43-45. ITC/Section 48-specific on Page 52)
- When ready to submit the pre-filing registration, refer to Pages 53-55.
- Once the registration has been submitted, Pages 55-64 explain what to expect, including the various submission statuses, application amendments, and registration numbers.

Additional Direct Pay Resources:

- [IRS Elective Pay and Transferability webpage](#), which links to relevant resources
- [IRS Elective Pay FAQs](#) and [IRS Pre-Filing Registration Informational webpage](#)
- [White House Direct Pay webpage](#)
- [Clean Energy Group Direct Pay Fact Sheet](#)
- [Lawyers for Good Government: Elective Pay & IRA Tax Incentives Resources webpage](#)

What else do I need to know?

The ITC now includes six additional “bonus credits” which can be stacked to cover up to 70 percent of eligible clean energy project costs. Learn more: [What Nonprofits Need to Know About the Investment Tax Credit](#).