



How Tax-Exempt Entities Can Claim Elective Pay

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How Tax-Exempt Entities Can Claim Elective Pay

When homeowners or commercial property owners invest in solar energy or other renewable technologies, they can claim up to 30% of their expenses as a federal tax credit.

Under the Inflation Reduction Act (IRA), tax-exempt entities are now eligible for the same opportunity. This benefit is referred to as Elective Pay or Direct Pay.

This mechanism allows tax-exempt organizations, local governments, tribal governments, and other entities without taxable income to access the financial advantages of clean energy tax credits, similar to homeowners and businesses.

Here's a simplified overview of the process:

1. An eligible tax-exempt entity installs and places a clean energy project (e.g., rooftop solar) in service.
2. The entity elects to receive a direct payment from the IRS. The entity pre-registers, submits the required documentation once the project is completed, and then files for Elective Pay during their normal tax filing period (based on their fiscal year).
3. Upon approval, the IRS issues a payment equivalent to the value of the entity's chosen tax credit(s). This payment can then be used to reduce the costs of solar or other clean energy projects or put toward other budgetary needs.



Since the IRA was passed, Exact Solar has helped schools, non-profit entities, and local townships build solar systems and successfully claim the Elective Pay benefits they're entitled to. In this article, we'll go in-depth into what Elective Pay is, which organizations are eligible for it, and how to claim it.

ⓘ PLEASE NOTE: The information below is based on our knowledge since the IRA's passage and is **intended for general educational purposes only**. Consult your organization's accountant or legal advisor to ensure eligibility.

What Is Elective Pay?

Previously, tax credits could only be used to reduce tax liability, meaning that entities without tax liabilities, such as nonprofits or local governments, couldn't directly benefit. The IRA created a pathway for tax-exempt entities to benefit from clean energy tax credits.

Elective pay allows tax-exempt and governmental entities to receive payments from the IRS equivalent to the value of specific clean energy tax credits.

In the IRS's own words:

"Elective pay makes certain clean energy tax credits effectively refundable. The entity can receive the full value of the credit because the IRS treats the elective payment amount as a tax payment. We then count it as overpayment on the return and refund it to the entity."



Elective pay applies to various clean energy tax credits, including the Investment Tax Credit (ITC), the Production Tax Credit (PTC), and Clean Vehicle Credits.

Tax-exempt entities can utilize any of 12 different IRA tax credits to file for Elective Pay. For the complete list of applicable credits, refer to the IRS's official resource [here](#).

These credits can help offset project costs for solar panels, battery storage, heat pumps, EV charging stations, and more.

Who Is Eligible for Elective Pay?

Elective Pay is [available to a wide range of entities](#) investing in renewable energy technology, including:

- ✓ **Tax-exempt Organizations:**

[Nonprofits](#), [educational institutions](#), and [religious organizations](#).

- ✓ **Governmental Entities:**

[State and local governments](#), tribal governments, and [U.S. territory governments](#).

- ✓ **Rural Electric Cooperatives:**

[Supporting clean energy projects](#) that benefit their communities.



Eligible organizations can invest in a renewable energy system, file a return, and receive a cash refund from the IRS for a portion of their project expenses.

How Can Your Organization Claim Elective Pay?

If your tax-exempt organization is looking to invest in renewable technology and claim one of these credits, here are the steps to ensure you receive the full amount you're entitled to.

1. Ensure Your Clean Energy Project is Qualified

Common qualifying projects include:

- Solar energy systems
- Battery backup
- Energy efficiency upgrades
- Electric vehicle (EV) infrastructure
- Wind energy projects
- Geothermal systems

Refer to the [IRS guidelines](#) to ensure your project meets the necessary criteria for eligibility.



2. Place Your Project In Service

Before you can claim Elective Pay, your project must be installed and officially placed in service. This means the system must be operational and approved for use. Elective Pay is filed for the tax year in which you receive permission to operate your system, similarly to [commercial taxable entities](#).

The IRS defines "placed in service" as being "ready and available for its specifically assigned function." For a solar system, this means that:

- You or your organization owns the solar system and the property where it is installed (leasing does not qualify).
- Your utility company has granted permission to operate (PTO), and the system has begun operating.

It's important to note that the installation year and the year you receive permission to operate may not align. Your utility company manages the PTO process and may extend beyond the system's installation date.

Example:

Imagine Nonprofit A starts a solar project in 2025 to reduce its energy costs. They secure permits in the fall, and construction begins in early winter, finishing on December 27, 2025.

However, their utility company grants permission to operate on January 14, 2026. Since PTO was received in 2026, Nonprofit A will file for Elective Pay for the 2026 tax year, not 2025.



3. Prepare Your Documents and Pre-Register

Before starting the filing process, the representative of the nontaxable entity needs to be aware of three critical dates:

✓ The Date the System Was Placed in Service:

This is the date the solar system was officially turned on after receiving permission to operate (PTO) from the local utility.

✓ **Form 990-T Filing Deadline:**

Form 990-T is due on the 15th day of the fifth month following the end of the tax year. For example:

- If the tax year ends on December 31, 2023, the filing deadline is May 15, 2024.
- If the fiscal year ends on June 30, the filing deadline is November 15.



✓ **Filing Extension Deadline:**

Organizations may request a six-month extension for Form 990-T. If granted, the deadline for a tax year ending December 31, 2023, would move to November 15, 2024.

4. Create an Energy Credits Online (ECO) Account

The first step in preparing to claim Elective Pay is to register your project with the [IRS's Energy Credits Online \(ECO\) portal](#). This registration ensures your organization is set up to receive direct payments in lieu of tax credits. Follow the steps below to complete the process:

Step 1: Create an ECO Account

Before registering, gather the required documentation and confirm the tax year you're filing for. Then, create an ECO account by visiting the IRS portal:

[Register for elective payment or transfer of credits | Internal Revenue Service](#)

You'll use this account to manage and report the clean energy credits your organization intends to monetize. During the account creation process, you'll need:

- **Personal Identity Verification:**

First-time users must verify their identity using a valid photo ID.

- **Employer Identification Number (EIN):**

Enter your entity's EIN.

- **Entity Information:**

Provide details about your entity, including its name and address.



Step 2: Register for Specific Clean Energy Credits

Once your ECO account is active, register for the clean energy credits your organization plans to claim. For each credit, the IRS will assign a unique registration number, which is required when filing for Elective Pay.

Ensure you have the following information ready for each credit:

- Detailed project records, including financials and timelines.
- Documentation of compliance with state and local regulations.

Step 3: Register On Time

To avoid delays, adhere to the IRS-recommended registration timeline:

- **120 Days Before the Tax Return Due Date:** Register at least 120 days before the due date (including extensions) of the tax return where you'll report the credits. This allows time for the IRS to review and resolve any issues.

- **Automatic Extension for 2023:** For tax years beginning in 2023, government entities (including tribal governments) automatically receive a six-month extension when registering their credits. This extension is paperless and requires no additional application.
- **Extension for 2024 and Beyond:** For tax years beginning in 2024 and later, tax-exempt entities must submit Form 8868 to request an extension, if necessary.

By following these steps, your organization can ensure a smooth registration process and avoid potential delays in claiming Elective Pay.

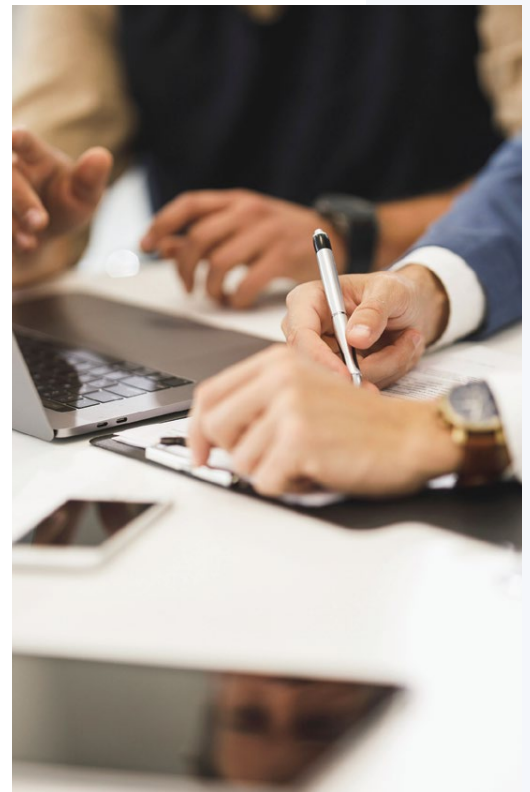
5. File for Elective Pay With Required IRS Forms

To claim the elective pay they're entitled to, eligible entities must complete specific IRS forms when filing their taxes. You'll use [Form 990-T](#) when you [file your organization's taxes](#), as well as whichever underlying form is necessary to claim the specific tax credit you're filing.

The IRS has included more resources on how to file 990-T [here](#).

Once the application is submitted, the IRS will review it to verify the eligibility of your entity's project. They may be in touch afterward to ask for further information if there's something you need to add to your application.

Upon approval, the IRS will issue a payment equivalent to the value of your claimed tax credit.



Where to Go From Here

Filing for and receiving Elective Pay can be a detailed and time-intensive process. However, if your nonprofit is committed to reducing operating costs and showcasing your dedication to sustainability, few investments are as impactful as generating clean energy on-site.

At Exact Solar, we're here to guide you every step of the way on your solar journey. From understanding your options to navigating the Elective Pay process, our team is dedicated to ensuring your experience is smooth, informative, and tailored to your organization's goals.

[Schedule a free consultation today](#) to learn how solar energy can help your organization save money, earn direct payments, and make a lasting impact.

Additional Resources to Learn More About Elective Pay

- [The White House's Step-by-Step Guide to Claiming Elective Pay](#)
- [Lawyers for Good Government \(L4GG\): Elective Pay & IRA Tax Incentives](#)
- [L4GG's Clean Energy Tax Navigator](#)
- [IRS: Clean Energy Tax Incentives – Elective Pay Eligible Tax Credits](#)