


FACT SHEET: Inflation Reduction Act Tax Credits Can Fund School Facilities Upgrades and Reduce School District Energy Bills

January 4, 2024

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According to the U.S. Department of Energy, K-12 school districts spend nearly \$8 billion annually on energy costs, the second largest expense after teacher salaries. Aging facilities combined with limited school budgets can result in deferred maintenance of facilities, with current estimates of around \$270 billion needed for infrastructure repairs.

In 2022, the U.S. Department of Energy announced a [grant program](#) funded by President Biden's Bipartisan Infrastructure Law (BIL) focused on energy improvements at public school facilities, especially in the highest-need districts, and designed to save schools money. Similarly, the White House released a [toolkit](#)  on federal resources for addressing school infrastructure needs in April 2022. And today, the Department of Education is announcing its grantees under the Supporting America's School Infrastructure grant program, which bolsters the capacity of States to support school districts in improving school facilities with the goal of more equitable access to healthy, sustainable, and modern learning environments for all students.

The Inflation Reduction Act (IRA) provides for the largest investment in clean energy in U.S. history, and it also creates a unique opportunity for K-12 school districts to leverage federal tax credits to help to fund investments in clean energy infrastructure and reduce cost.

Through elective pay, also known as “direct pay,” school districts can claim certain clean energy tax credits and receive funds directly from the IRS for their qualifying projects or investments. Under proposed Treasury regulations, public school districts that are agencies or instrumentalities of state, local, tribal, or territorial governments can benefit from several tax credits. After a school district places eligible property in service, the school district can register its intent to claim a tax credit with the IRS and file a tax return. The IRS would then make a payment in the amount of the credit.

What Tax Credits Can School Districts Claim?

School districts that meet the underlying requirements can claim tax credits such as:

- **Clean energy tax credits** including the Investment Tax Credit (48, 48E) and the Production Tax Credit (45, 45Y).
- **Tax credits for electric vehicles** under the Commercial Clean Vehicle Credit (45W) and the Alternative Fuel Vehicle Refueling Property Credit (30C), which includes electric vehicle charging equipment.

NOTE: More information about these and other credits is available here  and at www.irs.gov/cleanenergy. [*]

What Types of Projects Can Tax Credits Potentially be Used For?

While school officials should discuss with a tax professional their specific circumstances and objectives, schools may be able to use tax credits to receive financial support for the following:

- Purchase of electric school buses or other clean energy vehicles.
- Installation of solar panels on a school roof to provide electricity for school buildings.
- Installation of a microgrid – a small network of electricity users – with solar and energy storage to serve facilities during emergencies and grid outages.
- Installation of a central geothermal system to heat campuses or community buildings.
- Installing alternative fuel vehicle refueling property such as charging equipment.

Ways to Multiply the Impact of Tax Credits

The value of the tax credit will depend on project details. For many of the credits, the value will be affected by certain cross-cutting bonuses made available through the IRA. For example, an investment tax credit can increase from 6% to 30% for large projects that meet requirements for paying workers prevailing wages and using registered apprentices for the construction of clean energy project(s).^[†]

There are also bonuses and requirements for the production tax credit and investment tax credit based on domestic content and location in energy communities, as well as the low-income communities bonus credit which is allocated annually through an application process. These bonuses could have a significant impact on project financing and structure.

School districts should carefully review the statute, regulations and guidance and consider consulting a tax professional.

Can School Districts Use Tax Credits in Combination with Grants and Loans?

Yes. For example, a school district receives a tax-exempt grant in the amount of \$300,000 from a federal agency to purchase electric school bus. The bus cost \$400,000, and the district paid for it using a \$300,000 grant and \$100,000 of district funds. The school district's basis in the bus is \$400,000. The bus qualifies for the maximum section 45W credit, \$40,000.

How Do School Districts Register and Claim Tax Credits?

School districts should complete the required pre-filing registration process and file Form 990-T along with any credit-specific form(s). More information is available at www.irs.gov/electivepay.

What Will School Districts Need to Do to Receive a Payment?

- Identify and pursue the qualifying project or activity. Credits are only available once a project or property has been placed in service. For example, a school district installing solar panels would complete the installation and start using those panels to generate electricity.
- Using IRS guidance, establish your tax year, which will determine when your tax return is due. Credits only apply to the taxable year that begins in 2023 and following years.
- Meet the specific eligibility requirements for the requested tax credit and any applicable bonus credits for a given tax year.
- Complete the pre-filing registration with the IRS (information is now available at [IRS opens free IRA and CHIPS Pre-filing Registration Tool for organizations to register to monetize clean energy credits | Internal Revenue Service](#)).
- File Form 990-T by the due date of your tax return (or extended due date) and indicate the credit that the school district will be filing for, along with any other form(s) required for the underlying tax credit. Those without an annual filing requirement will receive an automatic 6-month extension.
- Payments occur after the tax return is processed (assuming requirements are met). Under the statute, the taxpayer cannot receive the elective payment until the due date of the return, even if the taxpayer files the return before that date.

On Tuesday, January 9, 2024 at 2:00 PM ET, the Department of Treasury will host an Elective Pay webinar that includes information on the pre-filing registration process. [Registration for the webinar is here](#).

[*] Applicable entities may use elective pay for certain other credits that are likely less relevant to school districts. The referenced publication includes information about all such credits.

[†] Certain projects of less than 1 megawatt are eligible for the higher credit amounts without meeting these requirements.