

Inflation Reduction Act Introduces Direct Pay Option for Nonprofit Solar

Description

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Under the Inflation Reduction Act (IRA), nonprofit entities, including nonprofit independent schools, are now eligible to receive payment in lieu of tax credits for solar photovoltaic (PV) systems. This extension of the IRA is aimed to make solar ownership more affordable for tax-exempt entities and provides an increased incentive for schools to make the decision to invest in solar energy.

Over the past decade, there has been a marked increase in the number of schools with solar installations. By using solar power, schools can save money on electric bills and educate students about clean energy. Further, the decline in the cost of solar panels and introduction of new financing options have made solar widely accessible to schools with ample physical area, such as parking lots, rooftops, and unused space suitable for such installations.

Since nonprofits, including nonprofit independent schools, were not eligible to take advantage of solar tax credits prior to the IRA, nonprofits' cost saving incentives were limited to entering into one of a few solar energy financing options with third parties to secure favorable energy rates. Under these arrangements, such as a solar lease or power purchase agreement, a third party could use the credits on behalf of the nonprofit. With a solar lease, a third-party owner, such as a solar company, installs solar panels on the property of a nonprofit and then sells the electricity produced back to the nonprofit. In contrast, under power purchase agreement, an investor owns the solar PV system and enters into a long-term contract with the nonprofit to purchase the electricity generated. While nonprofits could lock in favorable energy rates under both options, the solar company or the investor would use the tax credits associated with the solar systems.

With direct pay, nonprofits may now take advantage of the tax credits associated with solar projects. The base amount of tax credit is equal to 30% of the cost of the solar project. Additional credits equal to 10% of the project may be added for the purchase of U.S.-made products, if the project is located in a coal site, brownfield site, or low-income community. An additional 10% may be added for federally subsidized affordable housing. Thus, for a \$100,00 solar installation, a nonprofit may receive a check totaling \$30,000-\$50,000 from the U.S. government.

Nonprofit entities, including nonprofit independent schools, should consider whether to take advantage of the IRA's direct pay program. While the installation of a solar system requires an upfront investment, the direct pay option reduces the amount needed to fund the system. Further, by owning a system, nonprofits can take control of their energy costs and lock in a reduced fixed cost that will inevitably be incurred for decades.

[Partridge Snow & Hahn](#) is ready to answer any questions on the IRA's direct pay program. Connect with [Christian Capizzo](#), Partner & [Energy](#) Chair, [Elizabeth Manchester](#), Partner & [Nonprofit](#) Chair, or Associate Madeline Ursini to learn more about solar ownership as it relates to your nonprofit entity.

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