IRA TAX CREDITS DIRECT PAYMENT SUMMARY

[Information is based on NLC and Bloomberg Philanthropies materials on the tax credits, and IRS one-pager on the tax credits.]

Inflation Reduction Act (IRA) passed in 2022 and extends through 2032.

For local governments there are basically three types of IRA tax credit direct payments we are eligible for:

- Investment Tax Credit
- Production Tax Credit
- Clean energy vehicles and refueling

Each of these has specifications as to what constitute eligible projects.

<u>Investment Tax Credit (ITC)</u>

- Eligible projects include ***investment in facilities that generate clean energy from renewables*** like solar, wind, municipal solid waste, biomass, hydropower and energy storage technologies.
- Tax credit **is valued on the money invested** in the project in a tax year.
- Credit is essentially a rebate based on the total eligible costs of a project.

<u>Production Tax Credit (PTC)</u>

- Eligible projects include those that ***generate clean energy from renewable sources*** like solar, wind, municipal solid waste, biomass, hydropower and energy storage technologies.
- Tax credit **is valued on the amount of energy generated** per year in the first 10 years of operation

Note the ITC and PTC credits are mutually exclusive. They cannot both apply to one project.

For the ITC and PTC there are credits and bonuses that apply based on prevailing wage and apprenticeships, domestic content, and low-income community locations for the project. **We need to investigate these further** to determine if they could apply to any future projects and/or if they are worth the effort to obtain them.

Starting in 2025 the ITC and PTC are replaced with technology-neutral credits (Clean Electricity ITC, Clean Electricity PTC). These maintain the same structure but apply to any resource with an estimated greenhouse gas emissions rate of zero. **Guidance on carbon-free technologies is due by the end of 2024.**

<u>Clean energy vehicles and refueling</u>

- Clean Vehicles – Credit for Qualified Commercial Clean Vehicles
  - Supports the purchase of EVs including commercial vehicles like EV buses, passenger vehicles, certain other vehicles for use on public streets, roads and highways
  - Max $7,500 for vehicles <14,000 lbs, Class I-III Vehicles; and max $40,000 for all other vehicles
  - Beginning 1/1/24 the tax credit can be transferred to a dealer for an equivalent reduction in eligible vehicle's sales price
- Refueling – Alternative Fuel Vehicle Refueling Property Credit
  - Supports EV charging and other alternative fueling projects
  - ***Only applies to recharging stations placed in non-urban or low-income areas.***
  - Qualified fuels include electricity, ethanol, natural gas, hydrogen and biodiesel
  - Base tax credit is 6% of the basis of the property; tax credit increases to 30% if prevailing wage and apprenticeship rules are met
  - Maximum credit is $100,000 per each item of property

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Collaboration
We can collaborate with other local entities, e.g., Larimer County, CSU, on a project

What is *NOT* covered

- Does not cover **projects that *reduce* energy used** due to use of more efficient, or electric, equipment, e.g., won't apply to:
  - Building HVAC upgrades that do not use renewables like solar or wind, etc.
    - Could change with the 2025 ITC/PTC changes
    - **Will have to review ITC/PTC guidance at year end 2024**
      - **Covers residential programs** (Energy Efficiency Home Improvement, Residential Clean Energy) to make homes more energy efficient, but not public buildings.
      - **Only individuals may apply for those residential tax credits**
  - Parks Equipment replacement, won't cover replacement of gas-powered equipment with electric equipment (no production of clean electricity, it is the use of electricity in lieu of fossil fuels)
  - Lighting replacement to utilize more energy efficient lighting
- Only covers renewable energy sources for now, not electric

Filing a 990-T
As a non-taxable entity the City has no experience with preparing and filing a tax return with the IRS, nor with IRS audits. As part of their evaluation, the consultants would assist with evaluating whether the work required to file and support a tax return on audit is outweighed by the value of the tax credits the City would receive.