

How Elective Pay Can Support Clean Energy Projects in Illinois

December 3, 2025



Agenda



- 1. Housekeeping & Introductions**
- 2. Elective Pay Overview**
- 3. Eligible Tax Credits & Calculating Your Credit**
- 4. Combining funding sources with tax credits**
- 5. Changes to the ITC after OBBBA**
- 6. Elective Pay Process**
- 7. Q&A**

Housekeeping



- Please remain muted until the Q&A portion at the end of the presentation
- This webinar is being recorded and will be available on the IPA website, along with the presentation slides
- AI notetakers are not permitted and will be removed

About the IPA



- Independent State Agency created in 2007
- Responsible for the development of an annual Energy Procurement Plan for customers of electric utilities
- Supports the Illinois Renewable Portfolio Standard (RPS) through the development and implementation of:
- Supports the Illinois Renewable Portfolio Standard (RPS) through the development and implementation of:
 - Long-term Renewable Resources Procurement Plan
 - Competitive procurement for utility-scale projects
 - Solar incentive programs for homes and businesses
- The IPA is interested in ensuring that entities across Illinois leverage federal incentives for their solar and other clean energy projects, including by using Elective Pay to reimburse up to 30% or more of project costs.

Elective Pay (Direct Pay) Overview

Disclaimer

This presentation provides an overview of certain tax provisions for general informational purposes only. The content in this presentation is based on tax guidance on IRS.gov, information produced by third-party experts, and other publicly-available information, but itself is not tax guidance.

This presentation relies on simplifications and generalizations to convey high-level points about Inflation Reduction Act tax provisions. Please refer to guidance issued by the IRS and from your professional tax advisor for detailed information on the rules associated with any tax provisions.

This presentation and the information contained in it describe the laws and regulations in place at the time presented. Information on federal tax credits is changing, so check official sources for the latest updates.

Elective Pay Overview



- Official IRS term is “Elective Pay” but **also called “Direct Pay”** (used interchangeably)
- Mechanism for **tax-exempt entities investing in clean energy**, created by Inflation Reduction Act in 2022
- Allows entities with no federal tax liability to **make use of federal tax credits for the first time**
 - Result: a **check from the IRS** after filing a federal tax return
- Can combine with grants, loans, and other types of funding
- Depending on the type of project & tax credit claimed, **entities can be reimbursed for 30% or more of project costs**
- Generally **uncapped & not competitive** - claim as many projects as you can!

Important to Note



- Eligible tax-exempt entity **must own the energy property** to claim the credit (e.g., the solar panels) – cannot be leasing or using PPA model
- If the **project costs are entirely covered by restricted grant dollars, cannot claim the tax credits** via Elective Pay
- Entities' ability to claim the credits is **time bound. This means that projects placed in service in 2023 (and earlier), and in most cases 2024, are no longer eligible to claim the credits.**

Elective Pay Eligible Entities



- Local and regional governments
 - Includes agencies & instrumentalities of these governments (public school districts, transportation authorities, water authorities, etc.)
- Community colleges & public universities
- Rural electric cooperatives
- Non-profit organizations
- Houses of worship
- Any organization described in sections 501 through 530 that meets the requirements to be recognized as exempt from tax under those sections (including, among others, all organizations described in section 501(c)).

See IRS FAQ on eligibility [here](#)

Elective Pay Eligible Projects



Not all clean energy investments are eligible for Elective Pay. Examples of eligible projects and purchases include:

- ✓ Solar power
- ✓ Geothermal energy
- ✓ Energy storage/batteries
- ✓ EV charger installations
- ✓ EV purchases

Common energy projects/investments that are not eligible for Elective Pay include:

- ✗ Energy efficiency measures
 - Windows
 - LED Lights
- ✗ Weatherization
- ✗ Heat pump installations (except ground-source heat pumps)

Find more details on all Elective Pay eligible tax credits using [this](#) IRS fact sheet.

Elective Pay & Tax Credits: Do they still exist?



Yes!

- ✓ Elective Pay payments still being processed by IRS
- ✓ Project ID numbers still being issued by IRS
- ✓ IRS help line (phone) still being answered (long wait times can be expected)
- ✓ IRS Elective Pay-specific email inbox still being answered
- ✓ IRS-hosted office hours still taking place monthly.

Important changes to the underlying tax credits that can be claimed via Elective Pay are, however, starting to take effect.

Eligible Tax Credits

Top 3 Tax Credits for Elective Pay Eligible Entities



Credit	Used for	Value based on	Value	Maximum Value	Special conditions	New restrictions
Commercial Clean Vehicle Credit (45W)	Electric vehicles (EVs)	Type/size of vehicle	Varies	\$7,500 (passenger vehicles) or \$40,000 (e.g., buses, etc.)	Requires 3-step analysis (more info here)	Now only available for vehicles acquired by September 30, 2025
Alternative Fueling Infrastructure Credit (30C)	EV chargers	Size of owner's investment in the project	Up to 30% of total project cost	\$100,000 per port or fuel dispenser	Rural & low-income areas only - check map for eligibility; Need to meet labor requirements to get full 30% (otherwise 6%)	Now only available for infrastructure placed in service by June 30, 2026

Top 3 Tax Credits for Elective Pay Eligible Entities



Credit	Used for	Value based on	Base Value	Maximum Value	Special conditions	New restrictions
Clean Electricity Investment Tax Credit ("ITC") (48E)	Solar, wind, geothermal, energy storage, etc.	Size of owner's investment in the project	Up to 30% of total project cost	N/A	Projects ≥ 1 MW need to meet labor requirements to get full 30% (otherwise 6%)	Prohibited Foreign Entity restrictions; Beginning of construction considerations; Place in Service deadlines

Elective Pay ITC example: small project

Lord of Lords Ministries - Detroit, MI

- ~14kW solar panels
- **Project cost: ~\$31,000**
- Used 30% Investment Tax Credit
- **Elective Pay check amount received: \$13,000** (including interest from the IRS!)
- Later added EV charger, 3 batteries to back up solar. Now a resilience hub during winter storms.



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Elective Pay ITC example: large project

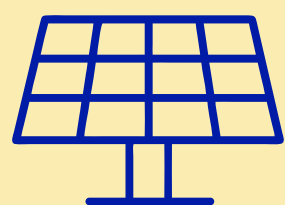
North Carolina Electric Cooperatives

- 10 utility-scale battery energy storage systems installed across NC
- 40MW of battery energy storage
- **Project cost: \$50 million+**
- Used Investment Tax Credit
- **Elective Pay check amount received: \$10.4 million**

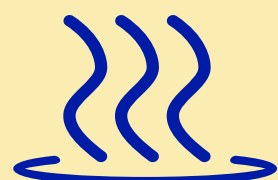


Calculating Your Tax Credit

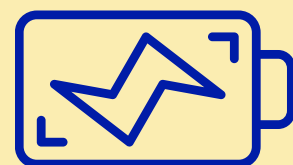
Calculating Your Base Credit (Minimum Tax Credit Amount)



Solar

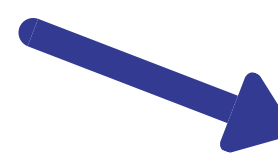
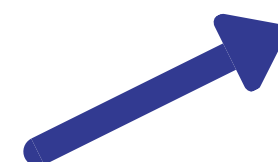


Geothermal



Energy storage

and any other projects claiming the Investment Tax Credit (ITC)



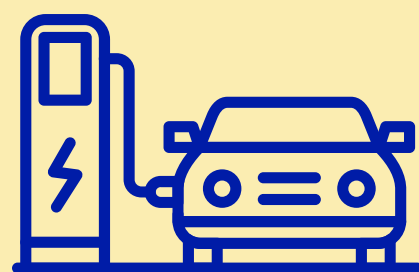
Projects <1MW

always 30%

Projects ≥1MW

6% or 30%

Why? Projects 1 MW or larger must comply with Prevailing Wage & Apprenticeship (PWA) rules to receive the 30% ITC, otherwise will only receive a 6% credit. Projects smaller than 1 MW are exempt from PWA rules. *More details to come in the Approved Vendors webinar.*



All EV chargers



6% or 30%

All EV charger installations must comply with PWA rules to receive the 30% credit, otherwise will only receive a 6% credit.

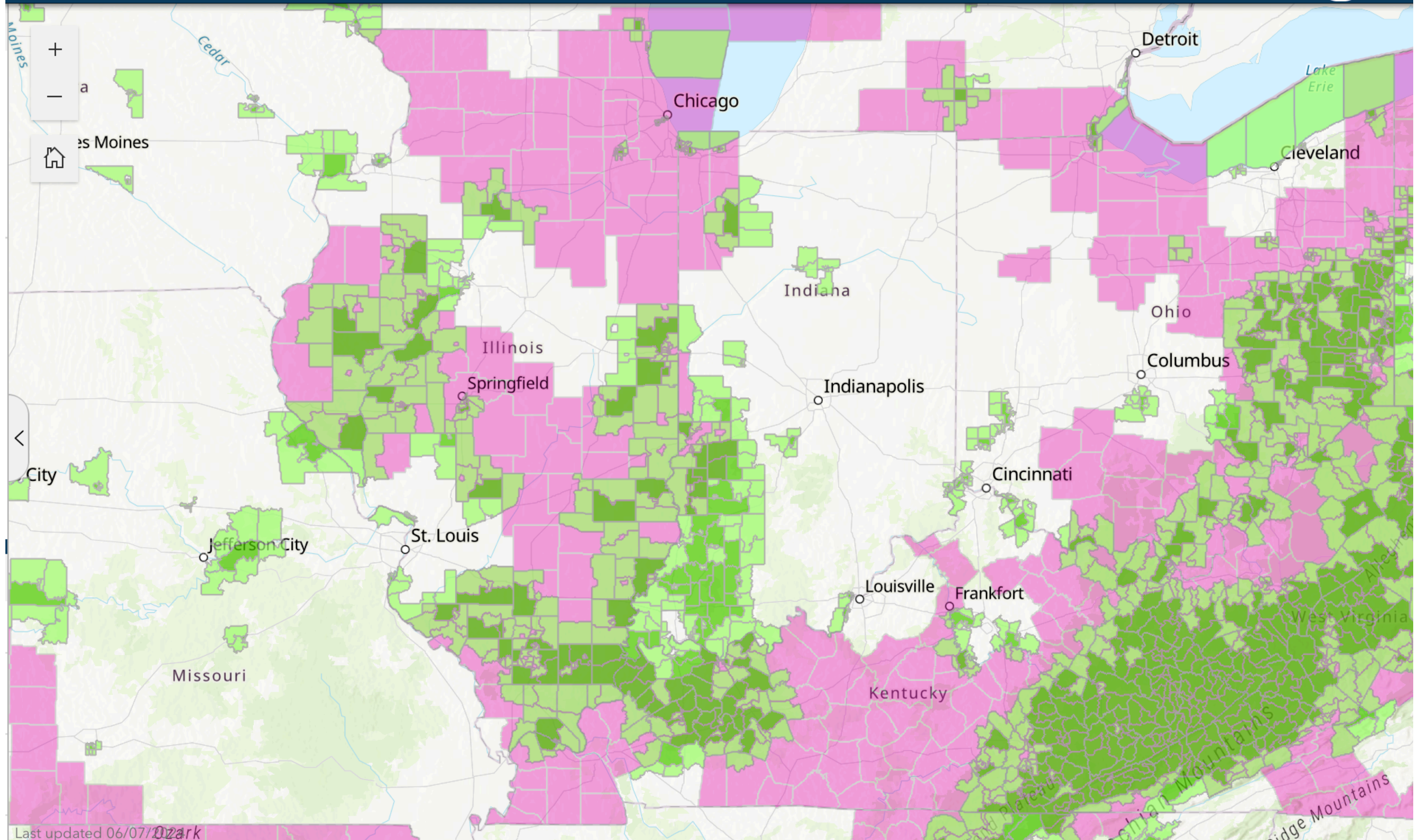
Bonus Credits



Bonus credits cannot be claimed alone, but can be added on top of e.g., the Investment Tax Credit to increase its value.

Bonus Credit	Used for	Value	Special conditions	Helpful links
Energy Communities Bonus Credit	Locations with former fossil fuel infrastructure; brownfield locations	+10%*	Based on census tracts with certain levels of unemployment & coal closures	Check the map here for eligibility (Note: brownfields not included on map)

Energy Community Tax Credit Bonus



Bonus Credits

Bonus Credit	Used for	Value	Special conditions	Helpful links
Energy Communities Bonus Credit	Locations with former fossil fuel infrastructure; brownfield locations	+10%*	Based on census tracts with certain levels of unemployment & coal closures; Qualifying via brownfield requires study	Check the map here for eligibility (Note: brownfields not included on map)
Domestic Content Bonus Credit	Project uses a certain % of made-in-the-USA products	+10%*	If project is ≥ 1 MW and <u>does not meet</u> these requirements, credit is reduced to 85% of credit amount in 2025, and 0% in 2026 and beyond. Certain exceptions.	More details on IRS website here
Low-Income Communities Bonus Credit Program	Small solar or wind project (<5MW) in low income & Tribal communities	+10% or 20%	Requires application to DOE & allotment (competitive & capped). Often oversubscribed.	Visit the IRS website here for more info & to apply

*2% if project only qualifies for 6% base ITC due to project ≥ 1 MW not meeting labor requirements

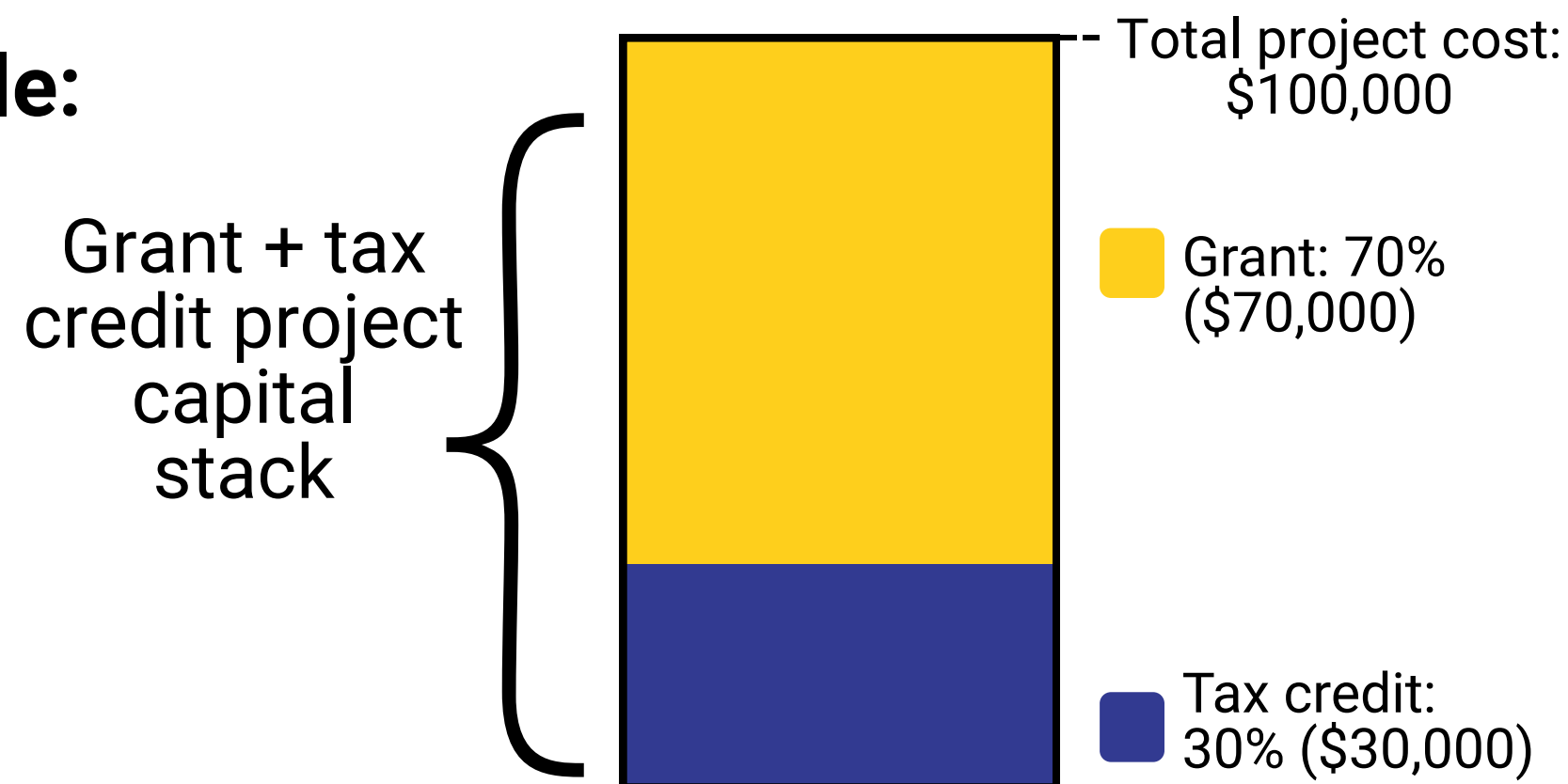
Combining Funding Sources with Tax Credits

Combining restricted grants with tax credits

Restricted grants:

- No Excess Benefit Rule: tax-exempt grant funds + tax credits cannot exceed 100% of project costs. Tax credit value will be reduced to ensure this is the case.
- Applies to all tax-exempt grant dollars (e.g., federal, state, philanthropic, etc.) if they are restricted to going towards the eligible energy property

Example:



✓ **Aligns tax credits and grant funds**

✓ **Leaves no excess for IRS to cut**

If the project was actually eligible for e.g., a 40% credit, IRS would cut it by 10%

Combining bonds with tax credits

Tax-exempt bonds:

- Using tax-exempt bonds to finance a project triggers a reduction in the value of the tax credit.
- Reduction equal to % of project financed with tax-exempt bonds, up to 15% maximum.

**Use tax exempt bonds to cover
10% of project costs**



Tax credit reduced by 10%

**Use tax exempt bonds to cover
25% of project costs**



Tax credit reduced by 15%

Changes to the ITC after OBBBA

New Regulations: Prohibited Foreign Entity (PFE)/ Foreign Entity of Concern (FEOC) Rules



- Restrictions for **projects involving entities and materials** from China, Iran, Russia, and North Korea
 - Entities that are prohibited foreign entities (PFE) from these countries
 - Entities that make payments to PFE from these countries
 - Projects that involve materials/components from these countries
- **If project is noncompliant, cannot claim tax credit**
- MANY more details in statute; Regulations still to come
- Applies to projects beginning construction in CY2026
 - **Start construction by 12/31/25 to avoid these restrictions***
 - Small projects ($\leq 1.5\text{MW}$) can “start construction” by paying or incurring 5%+ of total final project costs
 - Large projects ($> 1.5\text{MW}$) must begin physical work of a substantial nature at project site
- Talk to your installer!

*Entity-level restrictions and payments restrictions apply to entities with a tax year starting after 7/4/25

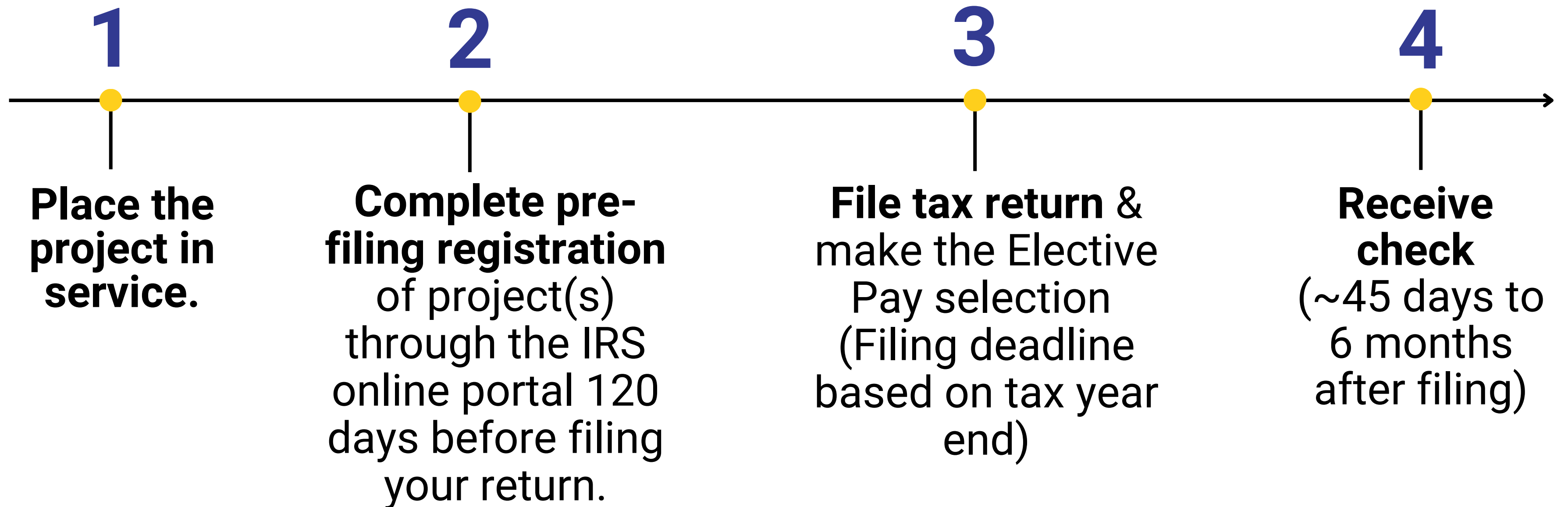
ITC expiration dates

- New deadlines for wind and solar projects only as a result of OBBBA
 - **If begin construction after 7/4/2026, must place in service by 12/31/2027** when ITC expires for those projects
 - If begin construction before 7/4/2026, do *not* need to place in service by 12/31/2027 (but should follow “continuous construction” 4 year rule)
- Geothermal, battery storage can claim the ITC through **2035**
 - 100% credit for projects beginning construction during or before 2033.
 - 75% credit for projects beginning construction in 2034.
 - 50% credit for projects beginning construction in 2035.
 - 0% credit (eliminated) for projects beginning construction after 12/31/35

Elective Pay Process

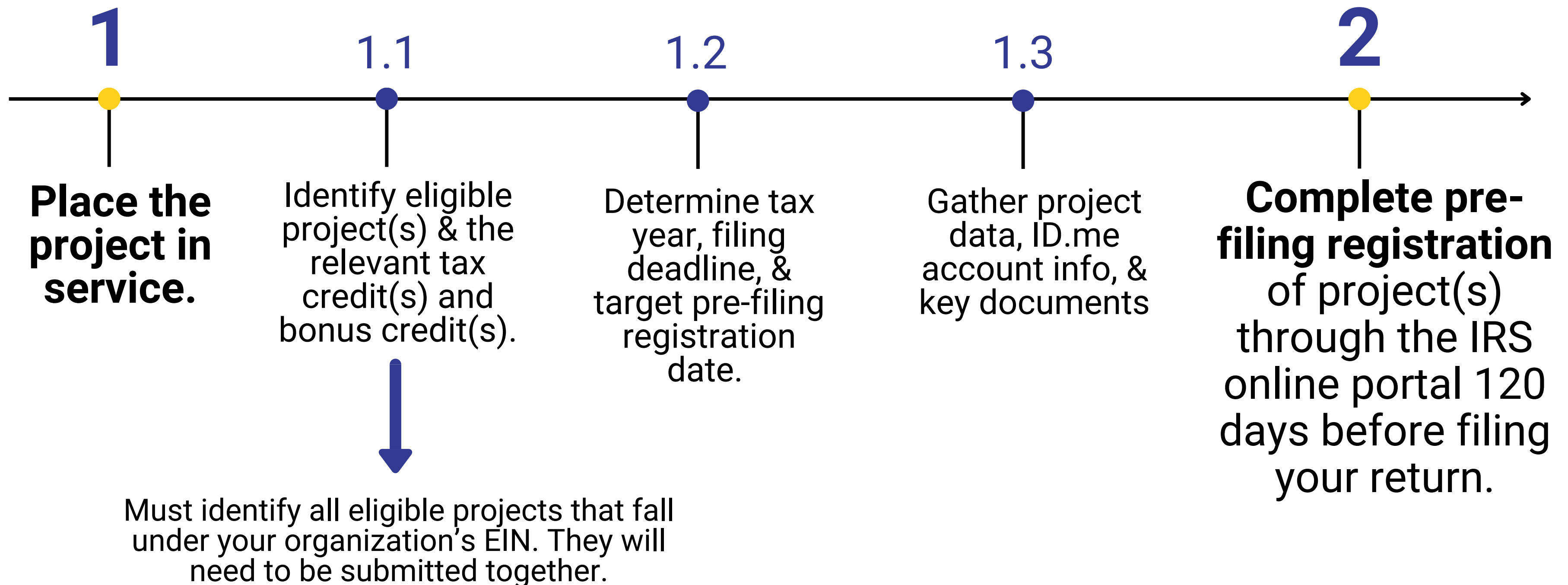
Elective Pay Process

There are 4 key milestones in the Elective Pay process:



Elective Pay Process

Eligible entities must complete multiple steps between each milestone.



1.2 Determining Your Tax Year

- If your organization has filed a tax return (or completed a Form 990) in the past, then it has already established a tax year with the IRS & must use this tax year.
 - Nonprofits generally have to submit a Form 990 each year to the IRS
 - Check with your finance/budget department regarding your organization's filing history
 - Your tax return or Form 990 will specify the dates of your tax year
- If your organization has never done either, you can choose your tax year based off of your organization's fiscal year or the calendar year.
- **Entities can only claim the tax credits for projects that were placed in service in their most recent tax year**
 - If the organization's tax year is January 1, 2025 - December 31, 2025 then you are looking for projects that have been placed in service in that timeframe.

1.2 Determining Your Filing Deadline



Determine your tax year & familiarize yourself with relevant filing deadlines.

- General rule: **The deadline to file your return is the 15th day of 5th month after your tax year ends** (+6 months if using extension).
- **Pre-register projects 120 days before filing deadline** (IRS recommendation)

2025 Elective Pay Filing Deadlines & Recommended Pre-Filing Registration Dates

Dates of select 2025 Tax Years	Without extension		With 6-month extension	
	IRS-recommended date for completing pre-filing registration	Filing deadline	IRS-recommended date for completing pre-filing registration for those using extension	Filing deadline after extension
1/1/25 - 12/31/25	1/15/2026	5/15/2026	7/15/2026	11/15/2026
7/1/24 - 6/30/25	7/15/2025	11/15/2025	12/15/2025	4/15/2026
10/1/24 - 9/30/25	10/15/2025	2/15/2026	4/15/2026	8/15/2026

1.3 Gather Data & Documentation

To prepare for Step 2 (Pre-filing Registration), you will need to have the following:

Project data

- Location (address and latitude & longitude)
- Date construction began
- Date placed in service
- Source of funds used for the project

Project Documents

- Proof of energy property ownership (e.g., copy of contract with solar installer showing purchase of the panels)
- Copies of permits
- Proof of interconnection

Entity data

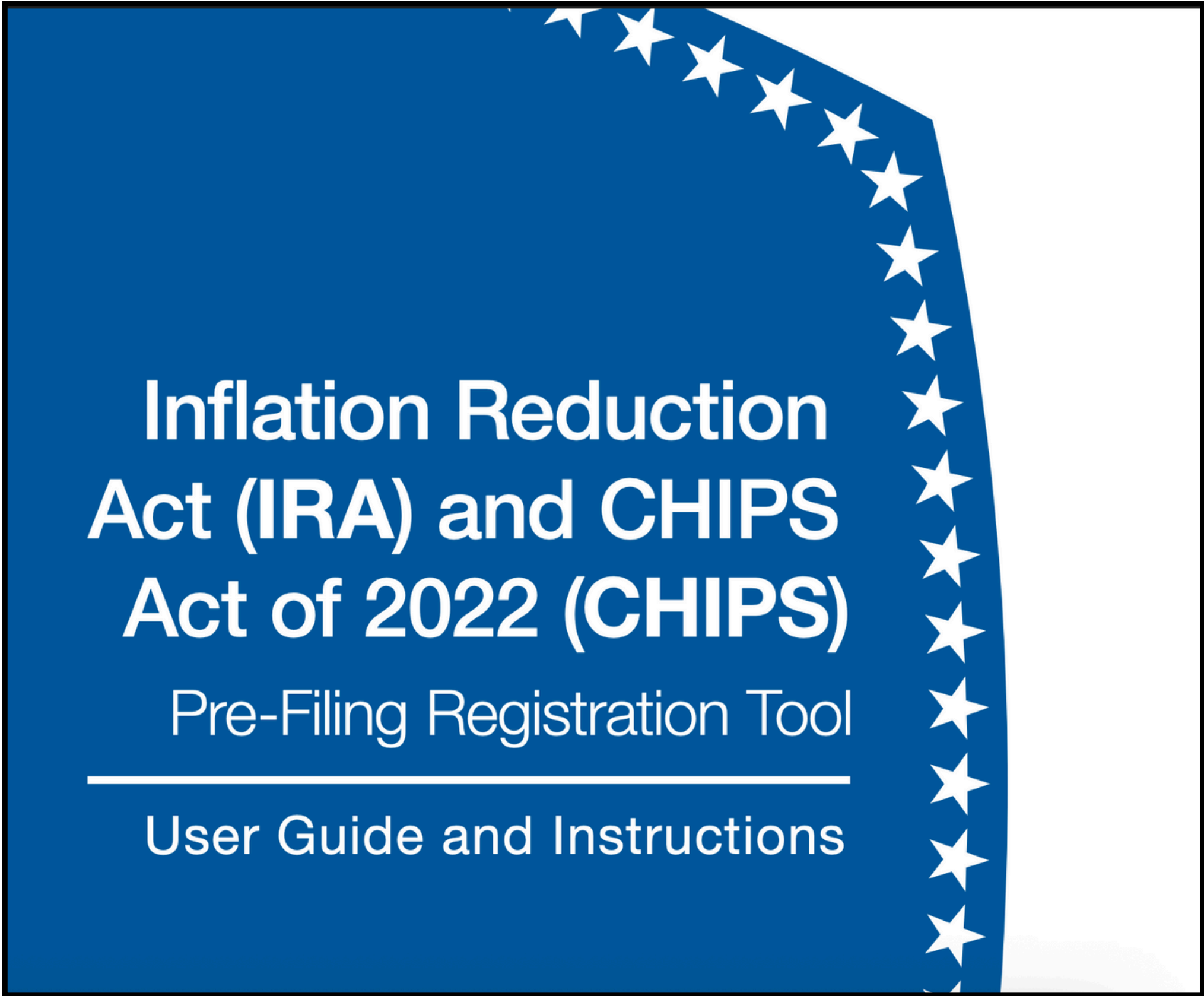
- Location (address and latitude & longitude)
- Entity name as associated with the IRS (check exactly what is on previous tax forms)
- Entity Employer Identification Number
- Bank account & routing number

ID.me account

- Someone on your finance team may have one already
- Sign up with personal information (e.g., home address, etc.) then link with your organization via EIN

2: Complete Pre-filing Registration

- Go to the IRS's pre-filing registration page:
<https://www.irs.gov/credits-deductions/register-for-elective-payment-or-transfer-of-credits>
- Follow the steps in [this IRS guidebook](#):
- Reach out to IPA with questions



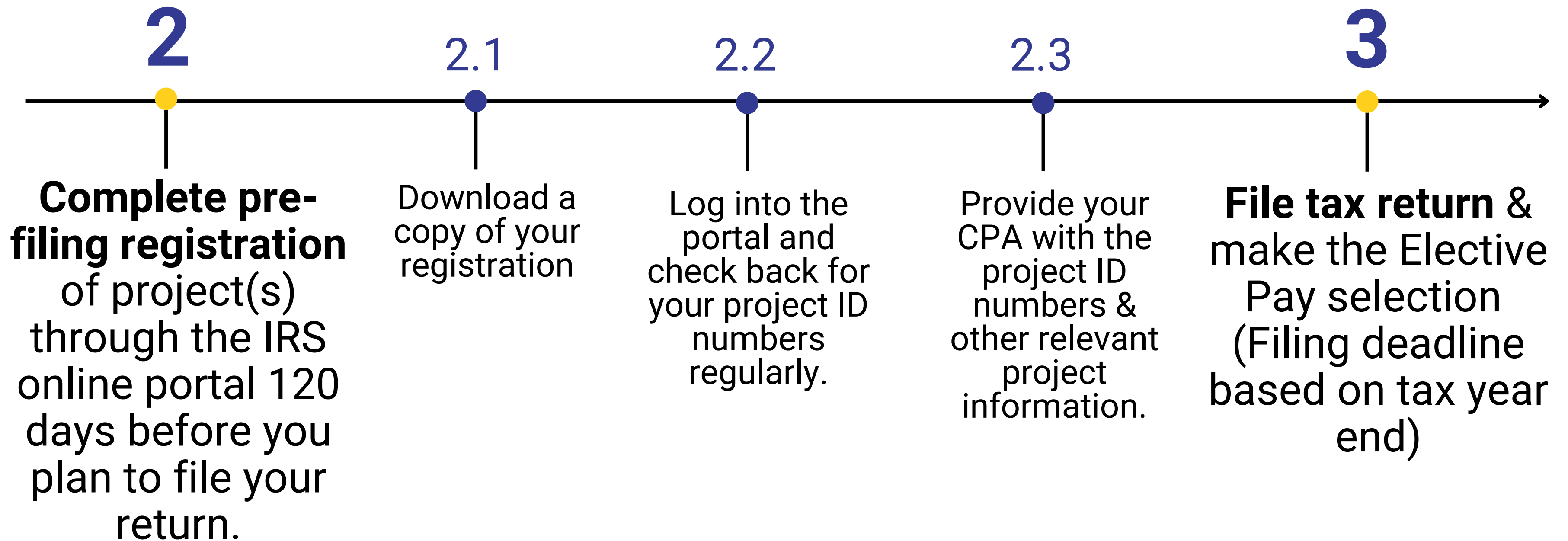
Inflation Reduction Act (IRA) and CHIPS Act of 2022 (CHIPS)

Pre-Filing Registration Tool

User Guide and Instructions

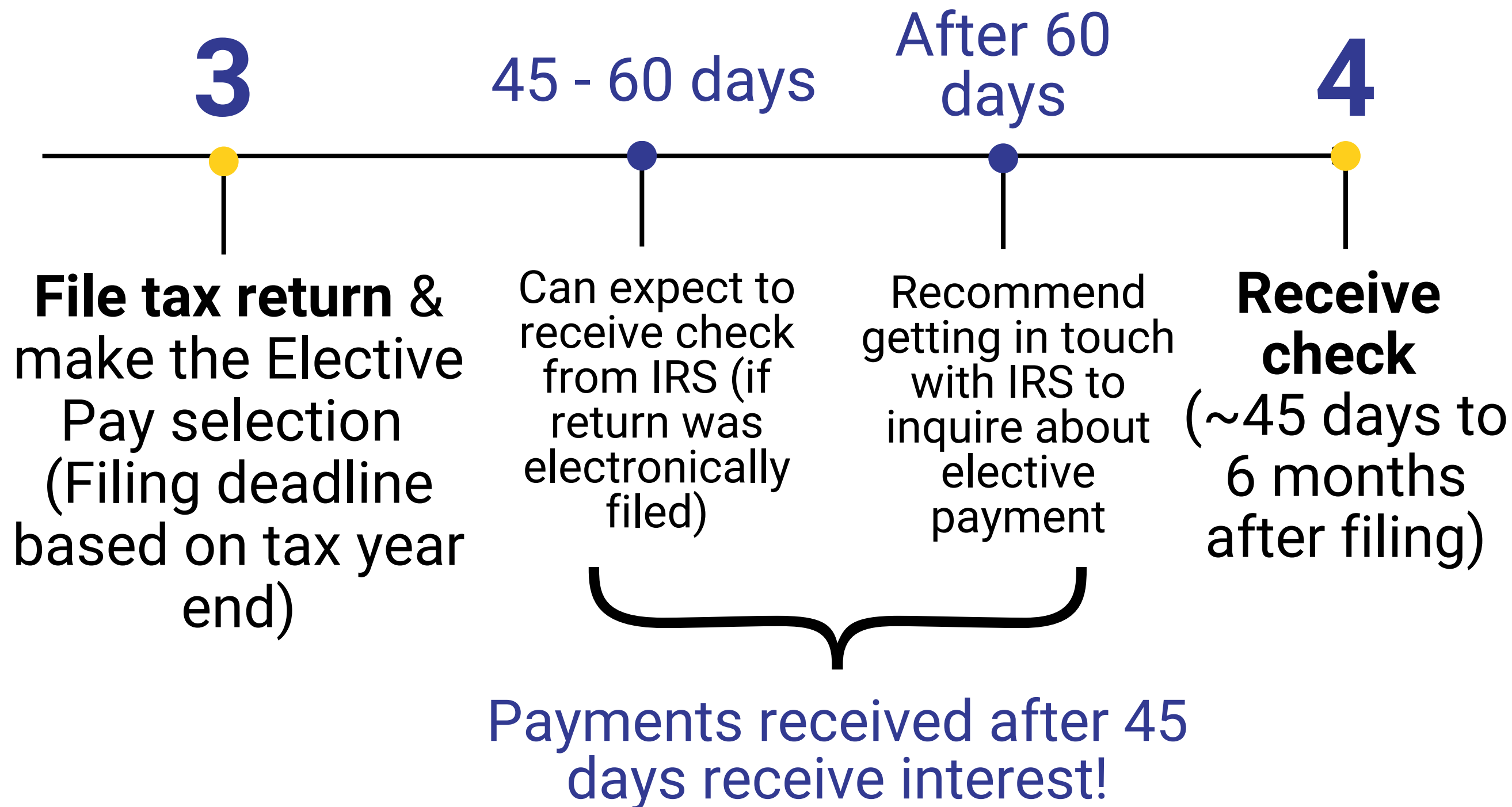
Elective Pay Process

Eligible entities must complete multiple steps between each milestone.



Elective Pay Process

Eligible entities must complete multiple steps between each milestone.



Important!

You may:

- Receive a letter from the IRS saying you are not owed an elective payment
- Get no response for longer than 60 days

Call (or have your CPA call) the IRS and inquire! Still lots of kinks in the system.

State of Illinois Resources

IPA Elective Pay Support



- IPA will be conducting outreach and providing education and technical assistance on Elective Pay.
 - Upcoming webinar for Approved Vendors
- If you are an eligible entity or Approved Vendor interested in IPA's resources on Elective Pay, please [contact us](#)
 - With additional support from Lawyers for Good Government via its Elective Pay Sprint Hub
- Check out the [IPA Elective Pay website](#) for more information and resources



In May 2024, U.S. Department of Energy (US DOE) allocated \$15,963,220 to the Illinois Climate Bank through an agreement with Illinois Environmental Protection Agency (IEPA) for purposes of establishing an Energy Efficiency Revolving Loan Fund.



90% of the funds allocated (\$14,366,898) have been received by the Illinois Climate Bank and are available for project use.



The loan is intended to help finance energy efficiency projects throughout Illinois.

Energy Efficiency Revolving Loan Fund (EE RLF) Capitalization Grant Program

- The fund will provide Direct Bridge Loans to finance costs eligible for **federal IRA Tax Credits/Direct Pay provisions** for projects in Illinois that need financing for qualifying energy efficiency projects.
- Owners can use these loans to **bridge the gap between project installation and receiving their Direct Pay/Tax Credit**. The loan shall be repaid upon receipt of its refundable tax credit payment or incentive payment or maturity, whichever occurs first.
- The Bridge Loan will also finance other short-term incentives, such as utility rebates, grants, and ILSFA incentives.

Buildings Eligible for the EE RLF Bridge Loan include:

- Nonprofit- and publicly-owned commercial buildings,
- Privately- owned commercial buildings, and
- Multifamily buildings with **five or more units** located in Illinois.
- *Single-family residential projects are not eligible for financing for this program.*

Units of local government



Other Public & Non-Profit



Commercial Buildings and Clean Energy Project Developers



To qualify, the project *must* address at least one of the following:

1. Energy efficiency of the building or facility
2. Physical comfort of the building or facility occupants
3. Quality of the air in the building or facility

Solar + energy storage or **solar + energy efficiency** (but not solar on its own) projects meet these requirements.

Audits

- Each project **must be recommended by a qualifying Energy Audit** and demonstrate that anticipated lifetime energy savings will equal or exceed the total cost of such improvements. If your project includes solar, it must be recommended by an audit.
- The audit must have been completed within the last five years.
- For more information, check out the Audit Guide linked on IFA's website.
- Check with your utility – energy audits may be available for free or low cost.

Key Features

- **Loan Amounts:** Ranging from \$50,000 to \$1,000,000.
- **Term:** Up to 24 months for Bridge Loans, 7 years for participation loans
- **Interest Rate:** Below market, low interest rate (3-6%)
- **Fees:** Upfront origination fee capped at 2% for Bridge Loans
- **Payments:**
 - For Bridge Loans: Interest shall be due at time of the final payment of principal on the Bridge Loan or at maturity, whichever occurs first. The Borrower shall be required to make payment on principal within 30 days of receipt of any refundable tax credit payment or Illinois Solar for All project incentive for the amount received or at maturity, whichever occurs first.
 - For participation loans: will depend on the lender.

***All Eligible Projects must comply with laborer wage and benefit requirements and reporting under the Davis-Bacon Act.**

Q&A