

# Elective Pay Webinar for Approved Vendors

December 17, 2025



# Agenda

---

- 1. Housekeeping & Introductions**
- 2. Elective Pay Overview**
- 3. Investment Tax Credit (ITC) & Calculating Credit Value**
- 4. Changes to the ITC after OBBBA**
- 5. Key Points for AVs**
- 6. State of Illinois Resources**
- 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
- IPA held a webinar for Elective Pay eligible entities on December 3, 2025. We encourage you to review the slides on IPA's website, and to share these resources with eligible entities.

# 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:
  - 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** - your customers can claim as many projects as they own and place in service

# Important to Note



- Eligible tax-exempt entity **must own the energy property** to claim the credit (e.g., the solar panels)
  - If your customers are using a lease or PPA model, they cannot claim Elective Pay.
- If the **project costs are entirely covered by restricted grant dollars, entities 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 is not only new to tax-exempt entities, but also many CPAs they work with. Share the IPA's Elective Pay website with customers to help instill confidence in this new tool.**

# Elective Pay Eligible Entities



**If any of the following entities are your customers, they are eligible to use Elective Pay to claim tax credits:**

- 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.**

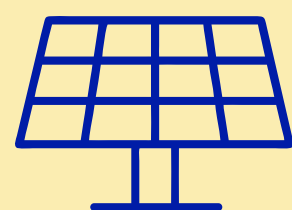
# Investment Tax Credit

# Investment Tax Credit (ITC)

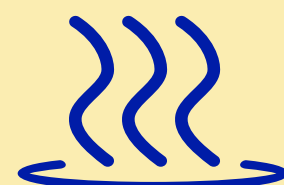


- Almost all entities installing solar are going to claim the **Investment Tax Credit**, which results in a one-time payment to the energy property owner
- The ITC can also be claimed for other zero-emission energy property e.g., **energy storage**
- Projects that started construction prior to 2025 will claim 48 (Renewable Energy ITC)
- Projects that started construction 1/1/25 or later will claim 48E (Clean Electricity ITC)

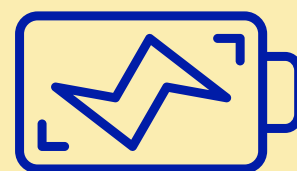
# Calculating Your Base Credit (Minimum Tax Credit Amount)



**Solar**

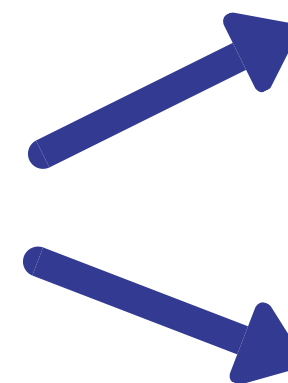


**Geothermal**



**Energy storage**

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



**Projects <1MW**

**always 30%**


**Projects  $\geq$ 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.

# Prevailing Wage & Apprenticeship Requirements



- 4 components 
- This is not just Davis-Bacon!
- Documentation is important!
- Exceptions:
  - ITC projects <1MW
  - Good Faith Effort  
Exception - written request for apprentices & no response, or request denied
- See more details [here](#)

## Pay

Must meet prevailing wage specific to the location of the project

## Labor Hours

Min. 15% of hours worked must be by apprentices from certified programs

## Apprentices Ratio

Must meet applicable ratio of apprentices to journeyworkers established by the registered apprenticeship program

## Participation

Any taxpayer, contractor, or sub-contractors with 4+ employees must hire at least 1 apprentice

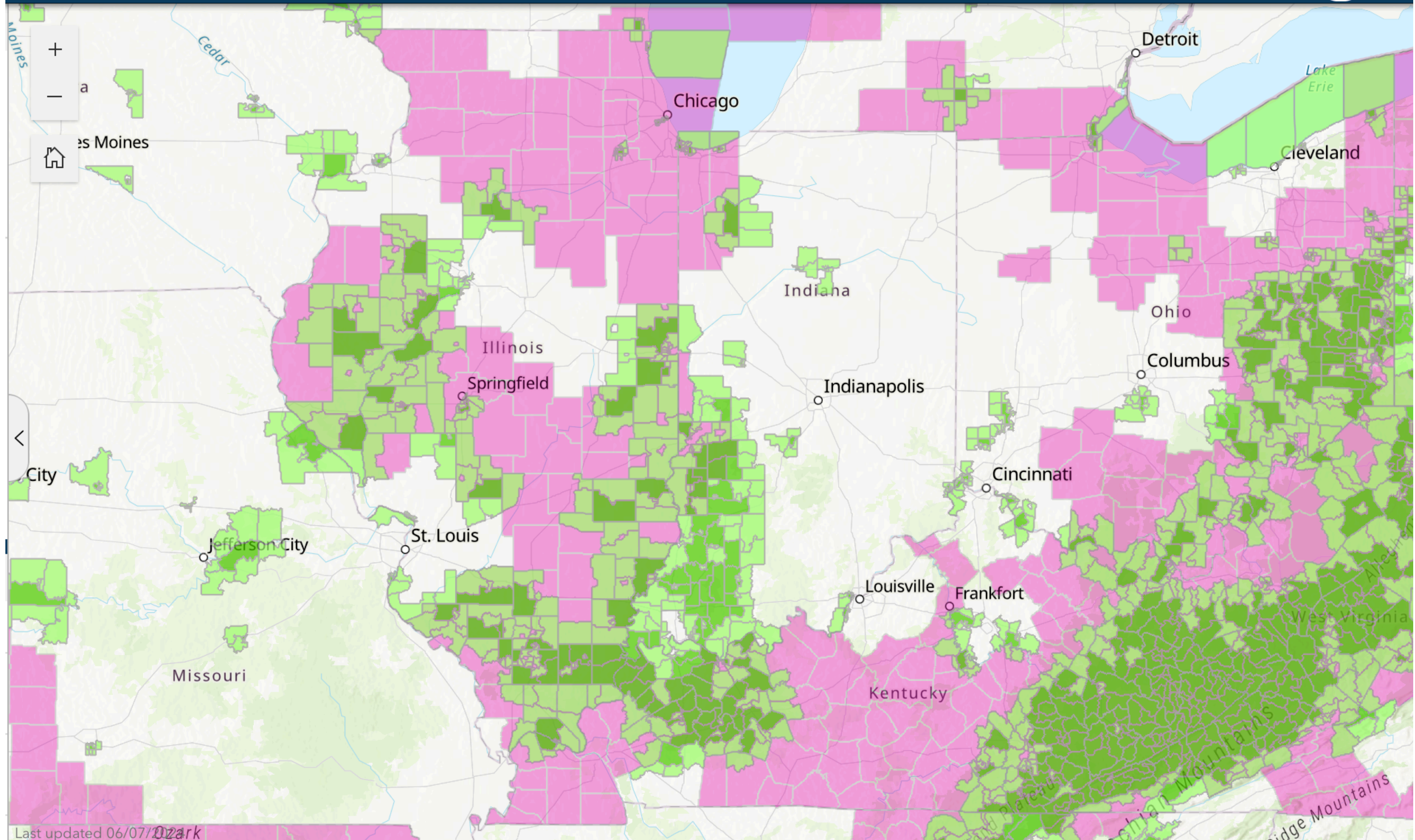
# Bonus Credits



**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 <a href="#">here</a> for eligibility (Note: brownfields not included on map)

# Energy Community Tax Credit Bonus



# Bonus Credits

Bonus Credit	Used for	Value	Special conditions	Helpful links
<b>Energy Communities Bonus Credit</b>	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 <a href="#">here</a> for eligibility (Note: brownfields not included on map)
<b>Domestic Content Bonus Credit</b>	Project uses a certain % of made-in-the-USA products	+10%*	If project is $\geq 1$ 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 <a href="#">here</a>
<b>Low-Income Communities Bonus Credit Program</b>	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 <a href="#">here</a> for more info & to apply

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

## Notes for AVs on bonus credits:

- **Not all bonus credits are guaranteed.** If you are informing your customers about the Low-Income Communities Bonus Credit Program, make sure you are giving them all the facts:
  - a. It is a competitive process (requires application to DOE) which is often oversubscribed
  - b. Application period doesn't open until Feb. 2026 and closes in March 2026
  - c. There are time constraints: entities must have met certain milestones when they apply and cannot place in service until they hear back from DOE
- The domestic content bonus credit is more complex than “these panels are made in the USA” and it is not the same as the Build America Buy America (BABA) rules.
- **Do not overpromise:** if you tell customers about these bonus credits, make sure you are prepared to provide the types of documentation and information they will need to successfully claim them.

# 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 companies owned/operated by PFEs
- **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

*\*Entity-level restrictions and payments restrictions apply to entities with a tax year starting after 7/4/25. IRS regulations on PFE have not been issued, and the definition of “beginning of construction” listed here may not be the definition that ultimately is used in forthcoming regulations. However, it is the most conservative definition currently available.*

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



## OBBBA created PFE rules on:

- The entity claiming the credit (cannot be a PFE)\*
- Payments the entity makes (cannot make payments to certain prohibited entities)\*
- Projects receiving “material assistance” from a PFE
  - This looks at whether components are produced or manufactured by a PFE
  - This is not necessarily going to be the same as where the components are produced
    - Misconception: “Our panels are made in the U.S., so they are PFE-compliant.” Panels made in the U.S. by a company headquartered or organized in China would not be compliant (this is not the universe of possible scenarios).

**Remember: IRS regulations on PFE have not been issued yet! In the absence of new rules, there is a lot of uncertainty.**

\*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

# Key Points for AVs

# Key Points for AVs

- Elective Pay reduces the payback period of the system and therefore is a great selling point. However, AVs need to **be careful not to oversell**. It is a complicated mechanism that can take time to realize funds, and not every entity is eligible.
- **AVs should encourage eligible entities to work with a CPA** to file for the tax credits. Elective Pay tax returns, like any other, can be audited by the IRS and mistakes can result in clawing back funds from entities.
- **Do your due diligence.** Know about the documentation you will need to provide to enable your clients to claim the credits. Don't make claims about your equipment being eligible for the domestic content bonus credit, or compliant with PFE restrictions, unless you have done substantial investigating.

# Key Points for AVs

- Make it standard practice to provide customers with:
  - Final permit
  - Interconnection agreement

They will need these + solar contract (and any grant agreements) to complete the pre-filing registration (first step in the process of claiming the credits).

- Projects  $\geq 1$  MW AC will need to show significant documentation to comply with Prevailing Wage & Apprenticeship rules.
  - E.g., payroll records for each laborer and mechanic (including each qualified apprentice) employed by the taxpayer, contractor, or subcontractor in the construction, alteration, or repair of the qualified facility.

# State of Illinois Resources

# IPA Elective Pay Support



- IPA will be conducting outreach and providing education and technical assistance on Elective Pay.
- 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