



**IPA Power Hour 2 — Elective Pay:
*Clean Energy Tax Credits for Tax-
Exempt Entities***

June 26, 2026

IPA Power Hour Webinars



- **Today's Power Hour:**

- This webinar will explore Elective Pay, a mechanism that enables tax-exempt entities to benefit from remaining federal clean energy tax credits. Attendees will learn how public bodies, non-profit organizations, houses of worship, and other tax-exempt entities with no tax liability can still leverage federal tax credits to reduce the overall cost of clean energy projects.

Power Hour is a series of educational and informative presentations on a wide range of clean energy topics and emerging issues.

- Started in 2021, the Agency has hosted 38 webinars in the Power Hour series, inviting local and national experts and thought leaders.

WEBINAR ARCHIVES: <https://ipa.illinois.gov/about-ipa/ipa-events/previous-power-hour-events.html>

Agenda



- 1. Introductions and Housekeeping**
- 2. IPA's Elective Pay Initiative**
- 3. Elective Pay Overview**
- 4. Elective Pay for Geothermal and Energy Storage**
- 5. Q&A**

Housekeeping



- Please mute all microphones
- We have saved time for Q&A at the end. Please submit questions in the chat
- IPA is recording this webinar. The recording & the slides will be posted on IPA's website alongside previous Power Hour webinars & slides:
<https://ipa.illinois.gov/about-ipa/ipa-events/previous-powerhour-events.html>

Please note: This presentation covers tax topics. The IPA is not providing tax advice.

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.

Today's speakers



Sarah Duffy
Director of External Affairs
Illinois Power Agency



Cassie Rowlands
Founder, CYR Strategies &
Consultant for IPA

IPA's Elective Pay Initiative



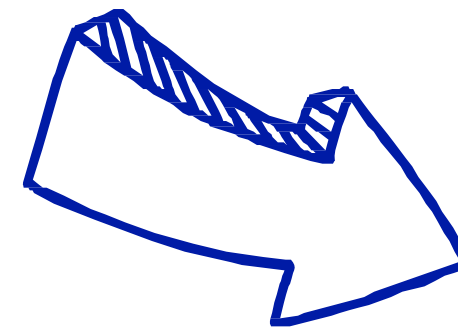
- **The IPA is interested in ensuring that entities across Illinois leverage federal incentives** for their solar and other clean energy projects, including by using Elective Pay to reimburse up to 30% or more of project costs.
- **Short-term sprint** from November 2025 to June 2026 with a focus on outreach to Elective Pay eligible entities to provide resources, education, and one-on-one support.
- Resources available:
 - **Elective Pay website:** <https://ipa.illinois.gov/renewable-resources/hr1/elective-pay.html>
 - Webinar recordings (You can find a comprehensive introduction to Elective Pay webinar on the website)
 - Case studies
 - FAQ
 - **One-on-one consultations**
 - Support from Lawyers for Good Government's Elective Pay Sprint Hub

Other State of Illinois Resources



- **Illinois Finance Authority** bridge loans: up-front capital to be repaid upon receipt of elective payment and other incentives
- Projects must have an energy efficiency component (project cannot be solar alone)

**Find out more on
the Illinois Climate
Bank website here!**



Elective Pay Overview



- Official IRS term is “Elective Pay” but **also called “Direct Pay”** (often 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
- Tax-exempt entities **claim the commercial tax credits (not residential)**
- 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** (e.g., the solar panels) to claim the credit – cannot be leasing or using e.g., power purchase agreement (PPA) model
- If the eligible **project costs are entirely covered by restricted grant dollars, entity 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 2024 and earlier are no longer eligible to claim the credits.**
 - Deadlines depend on an entity's tax year and therefore are determined on a case-by-case basis.
 - For many entities, the deadline has passed for projects placed in service in 2025.
 - Certain projects could potentially still qualify. Contact IPA to set up a time to discuss if you placed a project into service in 2025.

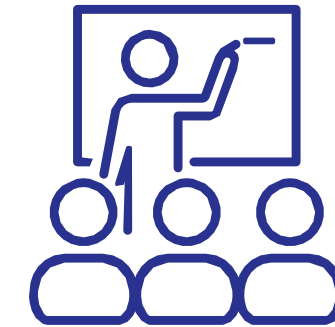
Elective Pay Eligible Entities



Local and regional governments



Agencies & instrumentalities of these governments (public school districts, transportation & water authorities, municipal utilities, etc.)



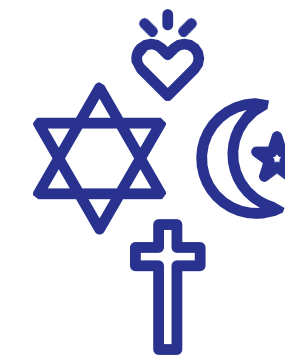
Community colleges & public universities



Non-profit organizations



Rural electric cooperatives

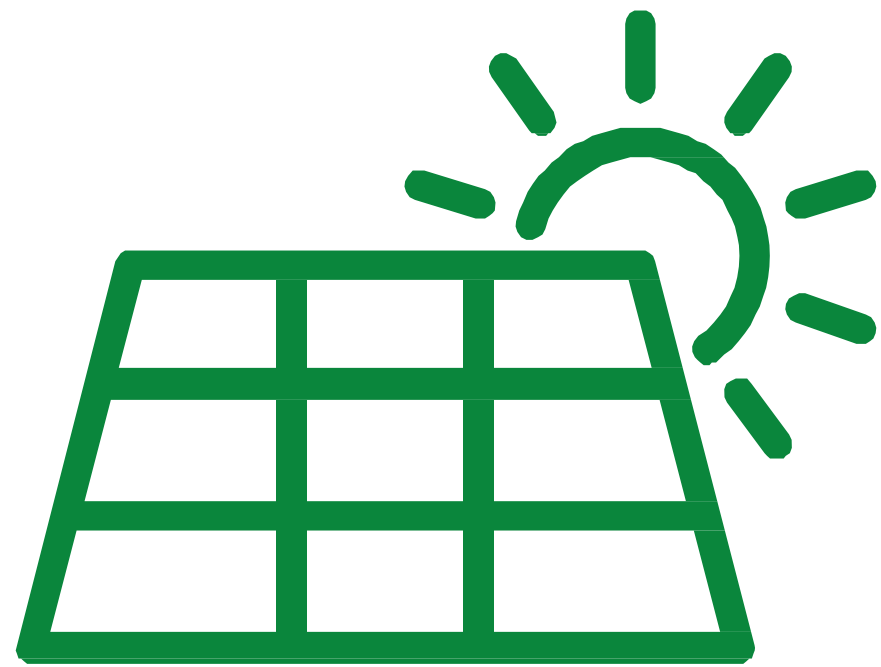


Houses of worship

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 purchases are eligible for Elective Pay. Examples of eligible purchases include:



 **Solar**



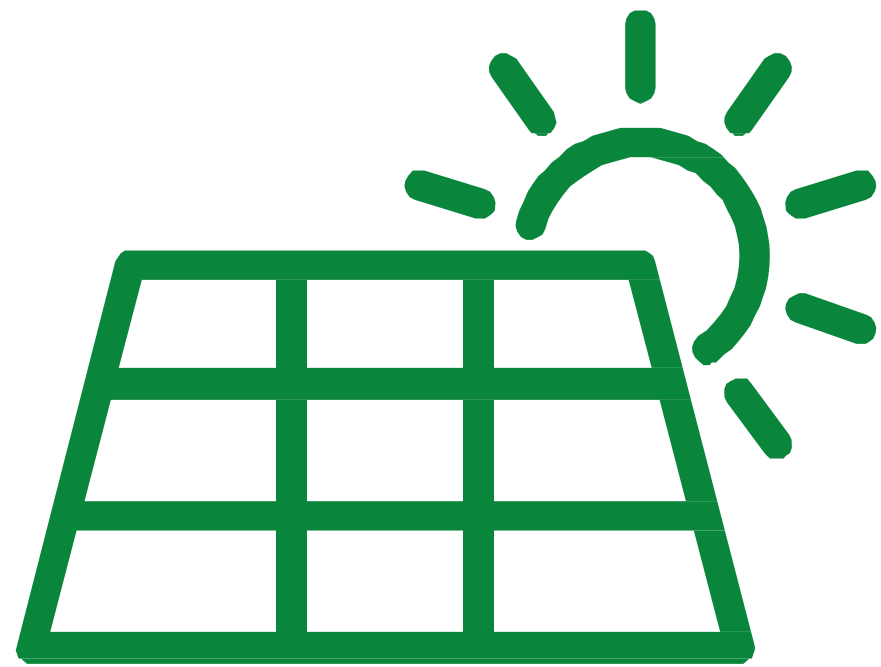
 **Energy storage**



 **Geothermal heat pumps**

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

Elective Pay Eligible Projects



 **Solar**

Many tax-exempt entities have used Elective Pay for their solar projects. Some examples include...

Elective Pay Examples - Solar

Jonesboro Elementary School

- 300kw solar array placed in service in December 2024
- Project cost: \$982,000
- **Elective Pay reimbursement: \$393,000 + Other incentives (IPA Illinois Shines incentives & utility incentives) = roughly \$500,000 received in year 1**
- Plus! Monthly savings on the school's electric bill range from \$1,600 to \$6,500/mo



***A “gamechanger” and a “no brainer” – Kevin Westall,
Jonesboro Elementary School
Superintendent***

Elective Pay Examples - Solar

Carbondale Unitarian Fellowship

- Installed 12.4kw solar on church
- Placed in service: February 2025
- **Elective Pay reimbursement:**
\$14,872
- Using Elective Pay + IPA's Illinois Shines incentives → reduced cost of system to roughly \$4,000
- Anticipated savings of ~\$1,000 annually



Elective Pay for Solar - Key Considerations



- If begin construction *after* 7/4/2026, must place solar project in service by 12/31/2027 when the tax credit 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).
- Tax credits pair perfectly with IPA incentives (IL Shines & IL Solar for All programs).
- Tax credit to claim: **Section 48E (Investment Tax Credit or ITC)**
 - Projects \geq 1 MW must follow Prevailing Wage & Apprenticeship rules to receive 30% ITC (otherwise 6%) and must meet domestic content rules
 - Prohibited Foreign Entity rules apply (noncompliance → no tax credit)
 - Ask your installer & check out L4GG’s resources:
<https://www.lawyersforgoodgovernment.org/elective-pay-ira-tax-incentives>

Elective Pay Eligible Projects



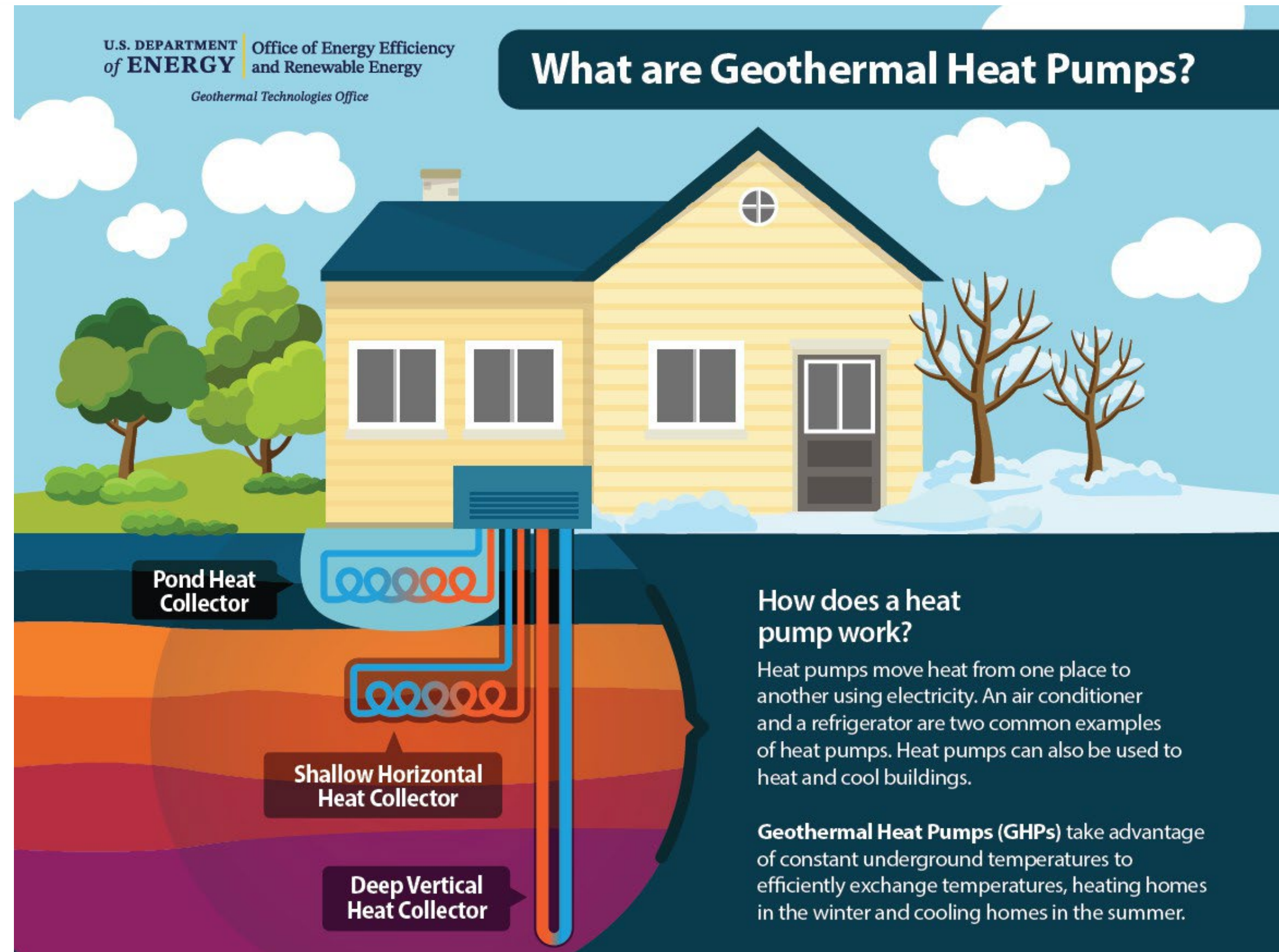
✔ Geothermal heat pumps

Key Points

- Also called: geothermal HVAC systems, ground-source heat pumps
 - ✘ Air-source heat pumps do not qualify
- **Tax credit does not expire until 12/31/2034!**
- Tax credit value: at least 6% or 30% of eligible project costs (reduced beginning in 2033)

Geothermal heat pumps

- Not a new technology! U.S. Department of Energy video on geothermal heat pumps is 15 years old: https://www.youtube.com/watch?v=y_ZGBhy48YI
- Tons of other DOE resources



Geothermal heat pumps



- Highly efficient, low-maintenance, and long-lasting HVAC systems
- Save on heating fuel costs, maintenance costs
- Often being used by municipalities (office buildings, fire stations, etc.), school districts, & colleges that are claiming tax credits via Elective Pay. As an example...

Elective Pay Examples - Geothermal



West Aurora School District

- 500,000 sq. ft. high school
- Installed a geothermal HVAC system in August 2024
- All of the wells located under the practice fields
- Project cost: \$6,149,672
- **Elective Pay reimbursement: \$2,459,869**
- Filed in September 2025, payment received December 2025
- School district has geothermal at 11 buildings districtwide



“We only pay to essentially create hot water for bathrooms and kitchens. We estimate the savings on geothermal across all buildings to be between \$400-\$500k a year.”

– Angie Smith, Assistant Superintendent, West Aurora School District

Elective Pay for Geothermal - Key Considerations



- Projects must start construction by **12/31/2034**
- Tax credit to claim: **Section 48 (Investment Tax Credit or ITC)**
- Projects \geq 1 MW must meet Prevailing Wage & Apprenticeship rules to receive full 30% Investment Tax Credit (otherwise 6%) and domestic content rules
 - For geothermal heat pumps, the maximum net output in MW is calculated by using [this conversion](#): 1 MW = 3.4 million British Thermal Units per hour (mmBtu/hour) for heating and 284 tons for cooling (Btu per hour/3,412,140 = MW)
- Prohibited Foreign Entity rules do not apply!

Elective Pay Eligible Projects



Energy storage

Key Points

- Not just batteries. Also includes thermal energy storage & hydrogen energy storage
- **Tax credit does not expire until 2035!**
- Tax credit value: minimum 6% or 30% of eligible project costs (reduced beginning in 2034)

Energy storage

- Energy storage technologies can enable people, communities, and utilities to draw electricity during blackouts, when rates are spiking, and from solar generation when the sun isn't shining.
 - Tax-exempt entities using battery storage during severe weather events to act as resilience hubs
 - Save the energy you're producing through solar - maximum production in summer, don't let it go to waste!
- Wide variety of types of battery compositions (constantly under development); varying degrees of duration
- To learn more about energy storage, check out:
 - [DOE blog post on solar + storage](#)
 - [Sandia National Lab Energy Storage Procurement Guidance Documents for Municipalities](#)

Elective Pay for Energy storage

Battery energy storage systems (BESS) in particular can store energy on a small scale (e.g., for a single home or building) or at utility scale (e.g., to back up portions of the electric grid).



Batteries installed at Lord of Lords church in Detroit



Source: <https://www.electric.coop/elective-pay-credits-bearing-fruit-for-co-ops-and-their-members>

Batteries tied to the grid, installed by an electric cooperative in Arizona

Elective Pay for Energy Storage - Key Considerations



- Projects must start construction by **12/31/2035**
- Tax credit to claim: **Section 48E (Investment Tax Credit or ITC)**
- Storage projects must have nameplate capacity of not less than 5 kilowatt-hours (kWh)
- Projects ≥ 1 MW must follow Prevailing Wage & Apprenticeship rules to receive full 30% Investment Tax Credit (otherwise 6%) and domestic content rules
 - For energy storage, this refers to nameplate capacity ≥ 1 MW
- **Prohibited Foreign Entity rules apply** (noncompliance \rightarrow no tax credit)
 - Ask your installer & check out L4GG's resources:
<https://www.lawyersforgoodgovernment.org/elective-pay-ira-tax-incentives>



Q&A

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