

FORVIS™



Inflation Reduction Act (IRA) Tax Credit Opportunities for Tax- Exempt Organizations

TO RECEIVE CPE CREDIT

- **You must respond to at least 3 of the 4 polling questions per CPE hour**
- **You must be logged in for a minimum of 50 minutes per every CPE hour in order to receive CPE credit**

Meet Your Presenters



Bob Johnson

Partner

bob.johnson@forvis.com



Amy Bibby

Partner

amy.bibby@forvis.com



Rachel Ormsby

Director

rachel.ormsby@forvis.com



Lauren Denton

Director

lauren.denton@forvis.com

Agenda

- IRA overview
- Examples of IRA opportunities for tax-exempt organizations

Inflation Reduction Act of 2022

- The Inflation Reduction Act provides nonprofit, tax-exempt entities, as well as state, local, & tribal governments, the opportunity to obtain benefits from investments in clean energy. To further promote new clean energy investments, the Inflation Reduction Act allows these types of entities to receive certain tax credits as direct payments from the IRS, simplifying access to key incentives & supporting investments to support the environment in their communities
- Nonprofit organizations are now eligible for energy tax credits & receive credit for the new capital investment in clean energy initiatives. Eligible entities may include governmental, higher education (public & private), civic & charitable organizations, rural electric cooperatives, political organizations, & others

Credit Programs Available to Tax-Exempt Organizations

Credit	Code Section
Alternative Fuel Vehicle Refueling Property Credit	30C
Renewable Energy Production Credit	45
New Energy Efficient Home Credit	45L
Carbon Oxide Sequestration Credit	45Q
Zero-Emission Nuclear Power Production Credit	45U
Clean Hydrogen Production Credit	45V
Credit for Qualified Commercial Clean Vehicles (tax-exempt entities only)	45W
Advanced Manufacturing Production Credit	45X
Clean Electricity Production Credit*	45Y
Clean Fuel Production Credit	45Z
Renewable Energy Investment Credit*	48
Qualifying Advanced Energy Project Credit	48C
Clean Electricity Investment Credit*	48E

How to Monetize

- Tax-exempt & government entities often have no tax liability, so a nonrefundable tax credit might have limited usefulness
- Inflation Reduction Act creates a new mechanism called “direct pay” that functions in many ways like a refundable credit
 - The election must be made no later than the due date, including extensions, for the tax return of the year in which the election is made (or a date determined by Treasury if the eligible entity is not required to file a return), but in no event earlier than 180 days after the enactment of Section 6417
- Eligible tax-exempt organization makes a Section 6417 “direct pay” election. The credit will be treated as a payment against tax & refunded to the organization if there is no UBIT
- Inflation Reduction Act offers an opportunity to turn the new credits into cash

Credit Amounts

- The credits have a base credit & bonus credit structure. For example, if you meet the prevailing wages & labor standards, you can raise the credit by a multiplier of five. The amount of the tax credit varies depending on the type of project & program, the date construction of the project begins, the date the project is placed in service, & other factors
- The 2022 base rate for the production tax credit is currently \$0.55 cents per kilowatt-hour (kWh) to be adjusted annually for inflation, & the base rate for the investment tax credit is currently 6%. If the project either (i) does not exceed one megawatt (1 MW) or (ii) meets federal prevailing wage & apprenticeship standards, these rates may increase 5x to 2.75 cents per kWh for the production tax credit & 30% for the investment tax credit

Requirements – Prevailing Wage

- The wage determination is the list of basic hourly wage & fringe benefit rates for each classification of laborers & mechanics in a predetermined geographic area for a particular type of construction. The information can be found at www.sam.gov. If the information is not available, the taxpayer must contact Wage & Hour Division to obtain the information
- To satisfy the Apprenticeship Labor Hour Requirements, apprentices must work a certain % of the total labor hours based on when construction began of the qualified facility
 - Construction began before January 1, 2023: 10% of total labor hours
 - Construction began after December 31, 2022 & before January 1, 2024: 12.5% of total labor hours
 - Construction begins after December 31, 2023: 15% of total labor hours
- The credits also may be reduced if tax-exempt bonds are used to finance the project

Section 179D – Energy Efficient Commercial Buildings Deduction

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

179D Credit – Introduction

According to Section 179D(c)

- New Construction
- Retrofits – Installation of
 - “Interior lighting systems
 - The heating, cooling, ventilation, & hot water systems, or
 - The building envelope”
- “Must be part of a plan designed to reduce the total annual energy & power costs with respect [to this property]”
- Reference point for % energy cost reduction: Building meeting minimum requirements of “ASHRAE”

Eligibility & Cap

- Eligibility – Greatly broadened, newly including designers of buildings owned by (among others)
 - Nonprofit Organizations
 - Private Foundations
 - Hospitals
- Shift from lifetime cap to deduction eligible
 - Every three years if privately owned
 - Every four years if deduction to a party other than the taxpayer
- ASHRAE – comparison point four yr. versus two yr. before construction completion

Credit Calculation

- New law applies to property PIS after 12/31/22
- Deduction does not exceed the product of
 - Square footage of the building &
 - “Applicable dollar value”
- Structure of new credit: “base” & “bonus” deduction
 - Base – Sliding scale of \$0.50 per square foot for energy savings of 25% & up to \$1 per square foot for energy savings of 50% or greater
 - Bonus – Sliding scale of \$2.50 per square foot for energy savings of 25% & up to \$5 per square foot for energy savings of 50% or greater
 - Wage & apprenticeship requirements, based on % energy reduction
 - Overall – potential increase from \$1.88 (old law) to \$5 (new law)

How to Monetize

- Historically, tax-exempt & government entities often are unable to utilize deductions, so Congress has allowed most government entities—including many public universities & colleges—to allocate their deduction to the designer of the building, effectively “selling” the deduction via contract negotiations
 - Architects, engineers, & other designers (general contractors)
- Tax-exempt organizations are now included due to the Inflation Reduction Act
- Parameters need to be established on allocation (sale) of deduction – it is considered a tax asset
 - Some states are evaluating a prohibition on public universities & colleges soliciting payment in exchange for the Section 179D deduction
 - Florida & Ohio

Examples in Higher Education



- Renewable energy projects
 - Installing solar panels on the roof of facilities
 - Using energy-efficient batteries for energy storage
 - Updating heating & power system
- Building new energy-efficient buildings
- Making ongoing improvements to existing facilities
- Purchasing a new fleet of vehicles, *e.g.*, buses, transportation for parking lots, etc.
- Installing charging stations for electric vehicles

Public Universities & Colleges

- Unfortunately, a possible error in the Act may prevent some public universities from utilizing the new credit opportunities. The new direct pay election, which lifts prior restrictions & offers easy monetization, is available to all 501(c)(3) colleges & universities, private & public
- Not all public universities may have 501(c)(3) status, though. Public universities are generally classified as either 1) an integral part of their state, 2) a political subdivision, or 3) an instrumentality of their state. The first two categories are eligible for the direct pay election. The third category is absent from the eligibility list

Examples in Nonprofits

- Improvements such as new HVAC
- New Build components such as “dynamic glass”
- Installing solar panels
- Purchasing a new fleet of vehicles, *e.g.*, buses, transportation for parking lots, etc.
- Installing charging stations for electric vehicles
- Current project examples
 - YMCA new building
 - Hospital building new surgery center

Examples in Public Sector

- Solar (Substation)
- Energy Storage (Batteries)
- Fiber-Optic Solar
- Waste Energy Recovery (Landfill Gas Construction Projects)
- Heat Pump
- Clean Vehicles
- Alternative Fuel Vehicle Refueling

FORVIS™



Questions?

CONTINUING PROFESSIONAL EDUCATION (CPE) CREDIT



FORVIS, LLP is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbaregistry.org

FORV/S

CPE CREDIT

- CPE credit may be awarded upon verification of participant attendance
- For questions, concerns, or comments regarding CPE credit, please email FORVIS at cpecompliance@forvis.com

FORVIS™



Thank You!