



# energy evolution practice

Powering Progress. Driving Innovation.



## The Inflation Reduction Act's Direct Pay Provision

### Experience radical renewable cost reduction and increased benefits

The [Inflation Reduction Act \(IRA\)](#), signed into law in 2022, is a significant step towards a greener future. As the largest U.S. investment in clean energy to date, this landmark legislation pours \$370 billion into initiatives to fight climate change, boost energy security, and stimulate clean energy innovation.

This is a game-changer. By **opening new avenues of direct funding** for clean energy projects, the IRA makes sustainable infrastructure more affordable, accelerating the shift toward a low-carbon future.

At the heart of the IRA's energy agenda lies an ambitious goal: to achieve a net-zero emissions economy by 2050. With a range of incentives and support mechanisms designed to expedite a wider adoption of clean energy technologies, it encourages **businesses, institutions, state and local governments, public infrastructure**, and the **energy industry** to rethink their energy strategies, making it easier and more cost-effective to invest in clean energy.

Additionally, the IRA is a critical tool in broadening public finance through strategies focused on equitability. The IRA brings more public funding into the mix, making it possible for a broader range of communities to contribute to sustainable development goals.

## How the IRA is Shaping the Future of Energy

- » **Accelerating Renewable Energy:** Supercharging solar, wind, and battery storage with tax credits, grants, and cost sharing
- » **Boosting Energy Efficiency:** Offering rebates and incentives for homes, businesses, and low-income communities.
- » **Advancing Grid Modernization:** Building smarter grids, expanding transmission lines, and exploring carbon capture, fueled by tax credits and revamped investment landscape.
- » **Promoting Electrification:** Making electric vehicles (EVs) and charging stations more affordable, along with clean buses and trucks, to electrify transportation.
- » **Increasing Domestic Supply Chain:** Offering grants, incentives, and loan guarantees to ramp up clean energy technology manufacturing, shortening supply chains and relocating manufacturing closer to project sites.

## A New Approach to Financing Energy Projects

The IRA introduces the [Direct Pay Provision \(DPP\)](#) and the [Transferability Provision \(TP\)](#)—a revolutionary shift from the tax equity model that financed renewable energy projects for more than two decades.

Traditionally, only large for-profit companies with significant tax liabilities could benefit from Investment Tax Credit (ITC) and other tax credits for clean energy. This left out many key players like non-profits and municipalities, who instead had to rely on complex tax-equity investment structures.

The DPP and TP level the playing field. Now, **entities previously hindered by tax requirements can directly claim the full value of the ITC and other energy tax credits.** With **DPP**, you can receive up to **30 to 40 percent of your clean energy investment back as a rebate from the Department of Treasury.** Alternatively, for those ineligible for DPP, **TP** lets you **receive tax credits through private investors.**

The [final rules](#) for the DPP were released by the Treasury Department in March 2024, making the program even more accessible and beneficial.

## What This Means for You

### The Direct Pay and Transferability Provisions Change the Game

- » **Expanded Eligibility:** Both provisions expand opportunities for a wider range of participants. Now, tax exempt entities—like local governments, transit agencies, and public schools—can participate. See the full [DPP eligibility list](#).
- » **No Tax Burden:** You can claim or transfer the credit's full value, regardless of your tax liabilities.
- » **Simplified Processes:** The DPP allows for direct payments from the Department of Treasury, simplifying the process. On the other hand, the TP offers new possibilities for credit monetization.
- » **Effective Date:** Applies to tax years beginning after December 31, 2022, and is available for the following 10 years.

Direct Pay	Transferability
<p><b>Who can use it?</b> Ideal for entities with limited tax liability.</p>	<p><b>Who can use it?</b> Ideal for for-profit entities ineligible for Direct Pay.</p>
<p><b>Benefit:</b> Receive up to 30-40% of their capital investment from clean energy upgrades directly from the Department of Treasury.</p>	<p><b>Benefit:</b> Transfer their tax credits through private investor exchanges.</p>
<p><b>Example:</b> A public university receives a direct payment from the Treasury Department to offset the cost of installing a new solar panel system, reducing the grid and lowering energy bills.</p>	<p><b>Example:</b> A manufacturing company installs a new energy-efficient production line and transfers its tax credits through an exchange to a private investor who specializes in clean energy investments.</p>

### Why Choose Direct Pay or Transferability?

- » **Own Your Clean Energy Future:** Invest directly and reap the full benefits of your renewable projects.
- » **Capture the Full Value:** No more relying on complex tax structures that siphon off benefits or complicated investment structures where third party investors receive all the financial and resiliency benefits.
- » **Enjoy Long-term Savings:** Owning energy sources provides cost-effective, resilient power.
- » **Future Scalability:** Retain flexibility to upgrade infrastructure over time, without being constrained by someone else's infrastructure agendas.
- » **Reduce Project Costs:** Convert tax credits into upfront cash with Direct Pay, making projects more affordable and encouraging faster implementation.

### The Big Potential of Direct Pay

- » **Accelerate Clean Energy Adoption:** Making low-cost renewables accessible to more communities.
- » **Boost The Clean Energy Economy:** Creating jobs and fostering innovation.
- » **Enhance Energy Security:** Reducing reliance on fossil fuels and strengthening grids.
- » **Support Equitable Community Development:** Target projects to benefit low-income communities.

## Targeted Advice for Your Market

VHB's Energy Evolution Practice and its integrated lifecycle solutions are here to help you navigate the IRA and unlock its clean energy potential:

**Transportation:** Considering electrifying your public transportation fleet? VHB can help conduct feasibility studies to assess grid capacity, maintenance needs, and cost savings. We can also help develop data-driven strategies for deploying EV charging stations or battery energy storage systems. Additionally, VHB's grant writing experience can be instrumental in securing IRA funding for your clean transportation initiatives.

**Institutions:** Looking to upgrade energy efficiency? VHB can help you develop climate and sustainability toolkits featuring dedicated energy roadmaps. We can also explore the feasibility of on-site renewable energy options—from solar integration to battery storage to EV charging stations—to help meet your sustainability goals, reduce reliance on the grid, and lower energy bills.

**Public Sector:** Unsure how to implement the IRA's Direct Pay Provision for your municipality? VHB can develop a roadmap to streamline the process and maximize its benefits. We can also assist in designing and implementing solar programs for municipalities that allow communities to participate in clean energy generation. Plus, we assist in developing community energy programs and systems, establishing necessary community structures for progress. VHB can also integrate clean energy solutions into your infrastructure projects.

## What Credits are Eligible?

Direct Pay can be used for [12 RA tax credits](#), including:

### Renewable Energy Production

- » **Investment Tax Credit (ITC):** Covers a portion of the cost of renewable energy projects, including solar, geothermal, small wind, and energy storage.
- » **Carbon Dioxide Sequestration Tax Credit:** Supports carbon capture and sequestration projects, which are designed to reduce greenhouse gas emissions from industrial processes and power generation.
- » **Production Tax Credit (PTC):** Provides a per-kilowatt-hour incentive for electricity generated from renewable sources like wind, solar, geothermal, and biomass.
- » **Clean Hydrogen Production Tax Credit:** Incentivizes clean hydrogen production with lower lifecycle greenhouse gas emissions.

### Clean Energy Vehicles

- » **Qualified Commercial Clean Vehicles Credit:** Applies to EVs, including vans, trucks, and buses, used on public streets, roads, and highways.
- » **Alternative Fuel Vehicle Refueling Property Credit:** Supports electric vehicle charging stations and other alternative fueling infrastructure in low-income and non-urban areas.

## How VHB Can Help

As the clean energy landscape evolves with the IRA, VHB is your trusted guide. Our team of experienced engineers, scientists, planners, and energy & sustainability professionals is well-versed in the intricacies of the IRA and its incentives, including Direct Pay. We have the knowledge and industry connections to help you navigate these programs and maximize your clean energy potential.

VHB consults with ArentFox Schiff, LLP on legal and tax matters including with respect to the IRA Direct Pay program. Our team is also developing software solutions to unlock potential across our markets, reducing the cost of designing infrastructure solutions that can take advantage of these cost reductions.



Contact [Joel Surface](#) to learn more about how we can help you leverage the opportunities offered by the IRA and move towards a sustainable future. Together, we can lead the charge in energy innovation.

## Helpful Resources

- » [Elective Pay and Transferability Frequently Asked Questions](#)
- » [USDN + Partners Federal Funding Webinar - Inflation Reduction Act Elective Pay](#)
- » [Clean Energy Tax Incentives: Elective Pay Eligible Tax Credits](#)
- » [How the Inflation Reduction Act's Tax Incentives Are Ensuring All Americans Benefit from the Growth of the Clean Energy Economy](#)
- » [How the Inflation Reduction Act and Bipartisan Infrastructure Law Work Together to Advance Climate Action](#)

## Disclaimer

VHB helps engineer and model lifecycle solutions for its clients, including with respect to tax incentives. VHB does not provide accounting, tax or legal advice to its clients, and all clients are strongly urged to consult with their own tax or legal advisors regarding any potential strategy. VHB has provided this information for educational purposes only.