

DIRECT PAY USER GUIDE FOR SCHOOLS, NONPROFITS (INCLUDING HOSPITALS), AND GOVERNMENTS

Updated February 2026

Through the Inflation Reduction Act of 2022, clean energy tax credits for technologies such as solar panels, geothermal heat pumps, and battery storage are accessible to public schools, non-profit hospitals, state and local governments, and other tax-exempt entities. This is possible through a mechanism known as direct pay (also known as elective pay), where these tax-exempt entities can get reimbursed up to 50 percent for the cost of clean energy projects from the U.S. Internal Revenue Service once projects are placed in service. Recent changes under the One Big Beautiful Bill Act (OBBBA), passed in July 2025, have modified the availability and terms of these credits, including shortened timelines for solar and additional procurement requirements—known as Foreign Entity of Concern (FEOC). The changes brought about by OBBBA are reflected below and in the addendum at the end of this document.

HOW DIRECT PAY WORKS

Direct pay allows tax-exempt entities to benefit from the extension and establishment of tax credits for a range of clean energy technologies and infrastructure. This includes Production Tax Credits (PTC) and Investment Tax Credits (ITC). The PTC provides a per-kilowatt-hour credit for production of a range of clean energy technologies. The ITC provides a percentage credit of the total cost of the clean energy project. For many schools, hospitals, and local governments, the ITC may be most relevant because it benefits smaller projects and the money is received in one lump sum. Clean energy projects are required to pre-register in order to certify they qualify for the tax credits.¹

Who is eligible to take advantage of direct pay?

The following entities can utilize direct pay for qualifying clean energy tax credits:

1. **State and Political Subdivisions:** States and their political subdivisions include local governments, such as counties and cities, Tribal governments, and U.S. territories. This extends to Puerto Rico and other territories as well.²
2. **Instrumentalities of the State:** Public institutions, governed or authorized by a political body, such as public schools, public hospitals, universities, Tennessee Valley Authority, and municipally owned utilities.
3. **Non-Profit Entities:** Entities that are considered 501c(3) organizations or other entities that are not required to pay federal income tax. This could include not-for-profit organizations, hospitals, and rural electric cooperatives, or other types of cooperatives.

¹ More guidance forthcoming on how to receive a pre-registration number.

² Only the production tax credits (45, 45Q, 45U, 45V, 45X, 45Y, and 45Z) are available for Puerto Rico, consistent with other entities. However, the investment tax credits require an American taxpayer or entity from the 50 States and DC and thus Puerto Rico is not eligible.

What types of projects can direct pay be used to fund?

Of particular relevance to tax-exempt entities like schools, local governments, and hospitals are the 48E ITC, which includes solar and battery storage, and the ITC 48, which includes groundsource heat pumps. The 30C tax credit, which can be used for electric vehicle (EV) charging stations, while relevant, is being phased down June 30th, 2026 and will not be the focus of this document.

Direct pay can be utilized by the eligible entities listed above with the following tax credits:

- **48: Investment Tax Credit (used for groundsource heat pumps)**
- **48E: Investment Tax Credit (ITC) (solar, thermal storage, battery storage)**
- **30C Alternative Fuel Vehicle Refueling Property Credit (terminates June 30th, 2026)**

MAXIMIZING CASH PAYMENTS THROUGH BONUS CREDITS

Eligible entities can maximize the value of direct pay by taking advantage of various “bonus credits” that are available for certain projects. Specifically, entities can increase the value of the credit by meeting labor standards, utilizing domestic content, and locating projects in low-income and/or energy transition communities.

Labor Standards

For all of the tax credits that are available as direct pay, entities must comply with wage and apprentice requirements to claim tax credits at the full amount. Failure to comply leads to tax credits worth only one-fifth of the full amount. For example, the base ITC is 30% if claimed at the full rate. However, it is only 6% if a project does not comply with the wage and apprentice requirements. One key exemption: projects under 1 megawatt (MW) will receive the 30% bonus rate regardless of meeting labor standards.

Domestic Content

The 48E and 48 tax credits also have domestic content (DC) bonus credits available. Entities that meet the domestic content preferences qualify for a bonus credit equal to 10% of the amount of the project cost. Projects that are 1 MW or larger that do not meet these preferences are eligible for a diminishing percentage of the credit beginning with projects that commenced construction in 2024; the percentage of the credit eligible for direct pay decreases starting in 2024 to 90%, 85% in 2025, and 0% starting in 2026. Projects under 1 MW are not subject to the diminishing credit value for not meeting DC preferences.

To meet the domestic content preference, a clean energy project must ensure:

1. 100% of iron and steel products are produced in the United States. This requirement applies to items directly incorporated into the project that are “made primarily of steel or iron and are structural in function.” In a solar project, for example, this could include steel photovoltaic module racking or foundation rebar.
2. A percentage of the total cost of all “manufactured products” are produced in the United States (for most technologies, the percentage starts at 40% in 2024 and ramps up to 55% by 2027). This requirement applies to all manufactured items directly incorporated into the project, excluding those that fall under the iron and steel requirement.

BlueGreen Alliance has produced a [User Guide](#) for developers and entities eager to meet the domestic content standards.¹

Targeting Disadvantaged Communities

Additional bonus credits are available for projects that target disadvantaged communities. Specifically, projects can receive a 10% bonus ITC if they are located in a low-income community or on Tribal lands and/or a 10% bonus ITC if they are located in an energy community (see definitions linked in the endnote).²

All of these bonus credits can be stacked together to increase the total amount of the tax credit for a given project. This total amount (including the bonus credits) is eligible for direct pay. See **Table 1** for more details.

Table 1: Stacking Clean Energy Tax Credits to Maximize Direct Pay

Stackable credits	Qualifying project	Description
30%	For smaller projects (under 1 MW) -and- For larger projects with labor standards	Qualifying projects with a maximum net output of 1 MW or less qualify for the 30% bonus credit. Larger projects over 1 MW must pay prevailing wage and utilize a percentage of registered apprentices to receive the full 30% credit. Larger projects that do not meet these standards can receive a 6% base credit. <u>Percentage apprentice hours required:</u> Labor hours spent on facility construction, alteration, or repair work: 12.5% for facilities where construction begins in 2023 and 15% in 2024 and later years).
+10%	Energy community ³	Communities that have seen significant job loss in the fossil fuel economy, or due to the closure of a coal mine or coal-fired power plant, or are host to a brownfield site.
+10 to 20%	Low-income community ⁴ or Tribal land ⁵ <i>(ITC Solar or wind projects only)</i>	10% for low-income communities or communities located on federally recognized Tribal land. 20% for affordable housing or a residential clean energy project in a low-income community. Note: Only available utilizing the ITC for solar and wind projects, below a maximum output of 5 MW; application required.
+10%	Domestic content	When a percentage of the 'total component cost' of manufactured product are Made in America, qualifying projects receive this bonus credit. Note: If an entity does not meet these domestic content standards, then the total amount of the tax credits eligible for direct pay decreases starting with projects that begin construction in 2024.
TOTAL VALUE OF TAX CREDIT: 60-70%⁶		

NEXT STEPS

Direct pay is a transformative opportunity for tax-exempt entities to build and produce clean energy and infrastructure. Entities who wish to access direct pay will need to pre-file with the IRS for each clean energy project. To prepare for this, entities will need to identify which tax credits they'll be claiming as well as which tax year they are filing for. This will generally be the year in which the project is placed in service. The pre-filing process will also ask for information about the project and that demonstrates eligibility for any bonus credits an entity is pursuing, e.g., domestic content bonus, energy communities bonus, low-income communities bonus. Then eligible entities must file a 990-T form to the IRS.⁷ Once the pre-filing process is completed, the IRS will issue a registration number that will be included when an entity files its taxes at the end of that taxable year.

RESOURCES

- [IRS.gov/CleanEnergy](https://www.irs.gov/CleanEnergy)
- [Energy.gov/ElectivePay](https://www.energy.gov/ElectivePay)
- IRS Proposed rule on Direct Pay: <https://public-inspection.federalregister.gov/2023-12798.pdf>
- IRS Frequently Asked Questions on Direct Pay: <https://www.irs.gov/credits-deductions/elective-pay-and-transferability-frequently-asked-questions-elective-pay>
- IRS Fact Sheets on Direct Pay: <https://www.irs.gov/credits-deductions/elective-pay-and-transferability>



ADDENDUM: Navigating Domestic Content and Foreign Entity of Concern (FEOC) Requirements

With the passage of the OBBBA (July 2025) that limited the scope and applicability of clean energy tax credits, there are additional sourcing requirements known as Foreign Entity of Concern (FEOC) restrictions that will be implemented in addition to the domestic content preferences put in place by the Inflation Reduction Act (August 2022). Whereas DC requirements are focused on where products are manufactured, FEOC restrictions focus on who controls or owns the manufacturer, the finances, etc., as well as where the supply chain originates. FEOC restrictions are designed to exclude taxpayer money from directly or indirectly flowing to companies or individuals from countries that the U.S. government has deemed to be adversaries of the United States. The domestic content preferences remain unchanged from the Inflation Reduction Act, while some of the clean energy technologies, including solar and energy storage, are subject to FEOC requirements starting January 1, 2026.

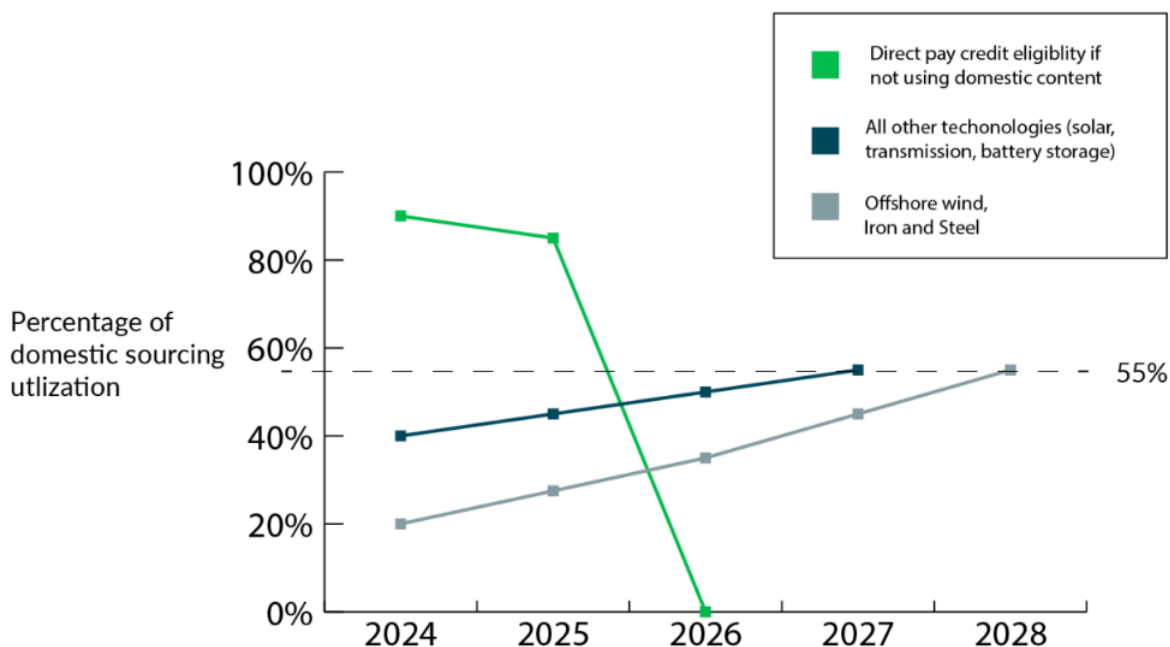
REVIEW OF DOMESTIC CONTENT INCENTIVES/REQUIREMENT

To meet domestic content thresholds for projects 1 MW or larger, and to qualify for a 10% domestic content bonus credit (for all size projects):

- All iron, steel products = 100% U.S. manufactured
- All manufactured products = a certain percentage of the total cost of all “manufactured products” are produced in the United States based on the year construction starts for the project (see table below)

Additionally, not meeting domestic content requirements will disqualify projects for direct pay for those that commence construction dates in 2026 or later. Projects commencing construction in 2024 without meeting DC requirements will only be eligible for 90% of the tax credit value. Projects commencing construction in 2025 without meeting DC requirements will only be eligible for 85% of the tax credit value.

Figure 1. Domestic Content Requirements (blue lines) & Eligibility (green line)



Pertaining to FEOC: The OBBBA introduced new FEOC requirements to some of the clean energy tax credits including 48E ITC/45Y PTC. The FEOC rules are complex and will be briefly identified below. For a more comprehensive breakdown of the requirements check out NYU Tax Law Center’s blog or Novogradac’s podcast. In short, the FEOC requirements fall into three categories:^{8, 9}

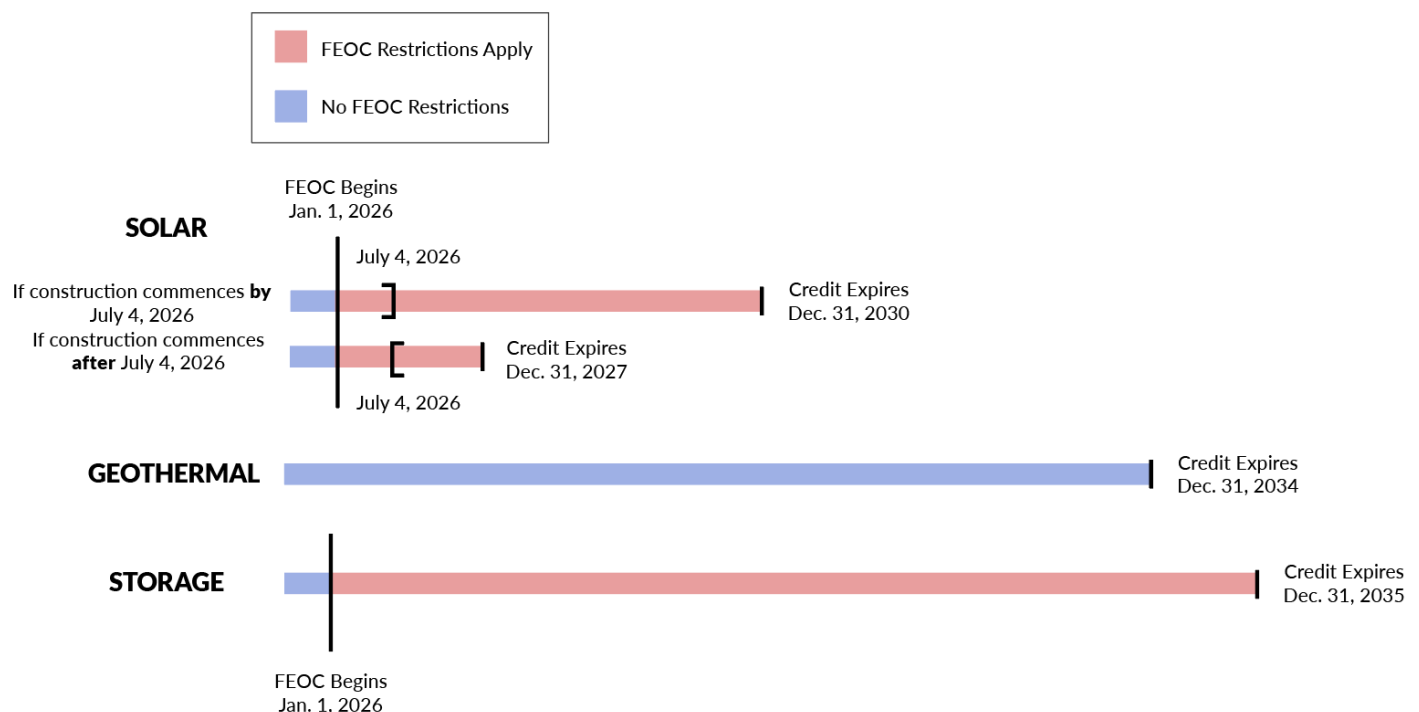
- Ownership rule: No prohibited foreign entities (PFEs) can claim these tax credits. PFEs are companies that have certain statutorily defined relationships of ownership or effective control to Chinese, North Korean, Russian, or Iranian governments, firms, or nationals.
- Payments rules: Taxpayers can lose eligibility for certain credits by making payments to or receiving loans from PFEs, (i.e. for technology licensing or to contractors). Importantly, a single improper payment made at any time in the 10 year duration of the credit can make the taxpayer liable for refunding the entire value of the credit.
- Material assistance: Projects can lose tax credit eligibility if more than a specified threshold of the value of certain components of manufactured products used in the clean energy project are sourced from PFEs. (See endnote for material assistance cost ratios table.)¹⁰

The IRS issued preliminary guidance February 2026 that mostly addresses the material assistance category of the PFE rules. More comprehensive guidance could come as early as May and as late as 2027.¹¹

FEOC applicability to clean energy technologies: There are no FEOC restrictions attached to geothermal (groundsource) heat pumps claiming ITC 48. For solar and energy (thermal and battery) storage 48E ITC/45Y PTC FEOC restrictions apply to projects that commence construction on or after January 1, 2026.

Below is a timeline for ITC direct pay-relevant technologies with their expiration dates and when/if FEOC requirements apply.

Figure 2. FEOC applicability and credit expiration for solar, geothermal, and storage



Summary of DC & FEOC requirements for Solar, Geothermal, and Storage

SOLAR: For solar tax credits (48E ITC, 45Y PTC) the credit expiration timeline has been shortened by OBBBA. The commence construction date for a solar project is critical because it determines:

1. *When a solar project must be placed in service to qualify for the credit.*
2. *Whether FEOC requirements are applicable in order to qualify for the clean energy tax credit.*
3. *What percentage of manufactured products are required to meet domestic content requirements/bonus credits.*

Included below are scenarios to help illustrate how both DC and FEOC timelines would apply to a single solar project.

- Commence Construction by Dec 31, 2025: project may be placed in service within 4 years to qualify for the credit with no FEOC restrictions.¹²
 - » **Scenario 1:** A school in Waunakee, Wisconsin commences construction on a 1.2 MW solar project Sept 28, 2025. They have until Sept 28, 2029 to place the solar panels in service to qualify for the ITC 48E clean energy tax credit. There are no FEOC requirements applicable to this project because it commenced before January 1, 2026. However, to get the full value of the credit (and qualify for a 10% bonus credit) the project must use 100% American-made iron and steel and ensure 45% of the total cost of all “manufactured products” are produced in the United States.
- Commence construction between January 1, 2026 and July 4, 2026: project may be placed in service within 4 years but FEOC restrictions apply.¹³
 - » **Scenario 2:** A school in Detroit, Michigan begins construction on a 0.9MW solar project on January 3, 2026. They have until January 3, 2030 to place the solar panels in service to qualify for the ITC 48E clean energy tax credit. FEOC restrictions are applicable since the project started in 2026. Because the project is under 1 MW, it does not need to meet domestic content requirements to receive the full tax credit but in order to qualify for the 10% domestic content bonus credit, the project would have to use 100% American-made iron, steel and 50% of the total cost of all “manufactured products” are produced in the United States.
- Commence construction after July 4, 2026: project must be placed in service by Dec 31, 2027 to qualify for the tax credit and FEOC restrictions apply as well.
 - » **Scenario 3:** A hospital in Ashland, OH begins construction on a 3 MW solar project on July 10, 2026. The hospital only has until December 31, 2027 to place the panels in service to qualify for the clean energy tax credit. FEOC restrictions are also applicable. Because the project is over 1 MW and commenced construction in 2026, to get any value of the credit (and qualify for a 10% bonus credit) the project must use 100% American-made iron, steel and 50% of the total cost of all “manufactured products” are produced in the United States.

GEOTHERMAL: For geothermal (aka groundsource) heat pumps that qualify for the 48 ITC, the credit expires December 31, 2034:

- No FEOC restrictions are attached to the 48 ITC credit. However, domestic content requirements/bonus credit opportunities still apply.

STORAGE: Thermal storage and battery storage can use the ITC 48E and PTC 45Y and the credit expires December 31, 2035.

- If a project commenced construction by December 31, 2025 then there are no FEOC restrictions and the project has four years to place the project in service. Domestic content requirements still apply.
- If a project commences construction January 1, 2026 or anytime afterwards FEOC restrictions apply. Domestic content requirements/bonus credit opportunities also apply.

Changes made to the Inflation Reduction Act by OBBBA Clean Energy Tax Credits:

- NYU Tax Law Center: <https://taxlawcenter.org/blog/navigating-obbba-phaseouts-prohibited-foreign-entity-rules-and-other-new-rules>
- The IRS was supposed to publish guidance on FEOC requirements around end of August 2025 but no guidance exists yet – check if guidance has been published here: <https://www.irs.gov/credits-deductions/clean-electricity-investment-credit>
- BlueGreen Alliance – Mini User Guide on OBBBA <https://www.bluegreenalliance.org/resources/bluegreen-alliance-releases-new-user-guide-on-trump-administration-changes-to-climate-energy-programs/>
- FEOC restrictions <https://www.huschblackwell.com/newsandinsights/feoc-restrictions-on-energy-tax-credits-an-update>
- FEOC Deep Dive: https://www.novoco.com/public-media/documents/102125_show_notes.pdf

Technical Assistance for Direct Pay Project Stakeholders

- Lawyers for Good Government – Elective Pay Sprint Hub: <https://www.lawyersforgoodgovernment.org/elective-pay-sprint>
- Energy Tax Credits for Schools Hub: <https://www.undauntedk12.org/energy-tax-credits-for-schools-hub>
- BlueGreen Alliance – Domestic Content User Guide: <https://www.bluegreenalliance.org/resources/bluegreen-alliance-domestic-content-user-guide/>

Endnotes

- 1 BlueGreen Alliance, Domestic Content Bonus for Clean Energy Tax Credits: A User Guide for Project Developers, July 2023. <https://www.bluegreenalliance.org/resources/bluegreen-alliance-domestic-content-user-guide/>
- 2 Department of Treasury, Fact Sheet: Four Ways the Inflation Reduction Act's Tax Incentives Will Support Building an Equitable Clean Energy Economy, 2022. <https://home.treasury.gov/system/files/136/Fact-Sheet-IRA-Equitable-Clean-Energy-Economy.pdf>
- 3 IRS, Energy Community Bonus Credit Amounts under the Inflation Reduction Act of 2022, 2023. <https://www.irs.gov/pub/irs-drop/n-23-29.pdf>
- 4 IRS, Initial Guidance Establishing Program to Allocate Environmental Justice Solar and Wind Capacity Limitation Under Section 48(e), 2023. <https://www.irs.gov/pub/irs-drop/n-23-17.pdf?source=email>
- 5 Federally recognized tribal land can be identified using the White House Council on Environmental Quality Climate and Economic Justice Screening Tool: <https://ndcpartnership.org/knowledge-portal/climate-toolbox/climate-and-economic-justice-screening-tool-cejst>
- 6 IRS, Internal Revenue Bulletin: 2023-10. https://www.irs.gov/irb/2023-10_IRB#NOT-2023-17
- 7 IRS, About Form 990-T. <https://www.irs.gov/forms-pubs/about-form-990-t>
- 8 The Tax Law Center, Navigating OBBBA: phaseouts, prohibited foreign entity rules, and other new rules, July 11, 2025. <https://taxlawcenter.org/blog/navigating-obbba-phaseouts-prohibited-foreign-entity-rules-and-other-new-rules>
- 9 NOVOGRADAC, Renewable Energy Tax Credit Finance Series: FEOC Deep Dive: What Foreign Entity of Concern Rules Mean for Clean Energy Tax Credits, Oct. 21, 2025. https://www.novoco.com/public-media/documents/102125_show_notes.pdf
- 10 Bipartisan Policy Center, Unpacking the FEOC Provisions in H.R. 1, the One Big Beautiful Bill Act, July 28, 2025. <https://bipartisanpolicy.org/explainer/unpacking-the-feoc-provisions-in-the-one-big-beautiful-bill-act/>
- 11 Crux Climate, Treasury releases initial guidance implementing prohibited foreign entity rules, Feb. 12, 2026. <https://www.cruxclimate.com/insights/treasury-releases-initial-foreign-entity-of-concern-rules>
- 12 Solar Energy Industries Association, Commence Construction Guidance, August 28, 2024. <https://seia.org/commence-construction-guidance/>
- 13 Ibid.