



Direct Pay: Supporting Decarbonization of Hospitals

Through the Inflation Reduction Act of 2022, clean energy tax credits for technologies such as solar, geothermal and EV charging are now accessible to public and nonprofit hospitals and other tax-exempt entities.* This is possible through what is known as direct pay, where hospitals and other tax-exempt entities can get reimbursed up to 50 percent for the cost of clean energy projects once projects are completed.

What Is Direct Pay?

In simple terms, direct pay (also known as elective pay) is a mechanism that allows tax-exempt entities, including public or nonprofit hospitals, to recoup a significant portion of the cost of a clean energy project as a reimbursement from the IRS. Historically, it wasn't possible for hospitals and other tax-exempt entities to take advantage of clean energy tax credits. Now, thanks to the Inflation Reduction Act and the novel inclusion of direct pay, public and nonprofit hospitals can receive the full value of a clean energy tax credit as cash payment once a project is placed in service.

What Qualifies for Direct Pay?

There are a total of 12 clean energy tax credits where direct pay is applicable. However, the clean energy tax credit most relevant to hospital buildings is the Clean Electricity Tax Credit (48E/48), while 30C for EV charging stations and 45W for EV ambulances are also relevant for hospital campuses.

- Solar panels (48E)
- Battery storage (48E)
- Thermal energy storage (48E)
- Geothermal heat pumps (48)
- EV charging stations (30C)
- EV ambulances (45W)

HVAC sidenote: Geothermal heat pump systems (also referred to as ground source heat pumps) can serve as replacements for traditional HVAC systems and can cut energy bills by up to 65 percent.ⁱ In addition, heat pumps can provide improved indoor air quality and better temperature control, which is particularly important for vulnerable patients.

The Payoffs

- Direct pay reimbursements can be reinvested back into the hospital to help cover expenses such as operational, maintenance, capital and staffing costs.
- Additional money comes from annual energy savings from installing clean energy technologies.
- HVAC upgrades and EV ambulances lead to improvements to indoor and outdoor air quality, supporting the health of vulnerable patients as well as staff.

*Under the final regulations, any organization described in sections 501 through 530 of the Code that meets the requirements to be recognized as exempt from tax under those sections is an applicable entity eligible to make an elective payment election.
<https://public-inspection.federalregister.gov/2024-04604.pdf>

- Hospitals powered by renewable energy plus battery storage can ensure reliable access to electricity to protect refrigerated medications, operate lifesaving machines and maintain essential hygiene practices, among other benefits during power outages.
- Upgrading hospital buildings will create good jobs and job training opportunities for our communities.
- Upgrading hospitals and health centers with clean energy will help reduce the healthcare system's large carbon footprint.ⁱⁱ

Recommended Next Steps

1. Build your support network: Reach out to your state energy office, state education agency, state department of commerce, local sustainability office and/or local utility to learn about additional available funds, see local examples and get technical assistance.
2. Identify upfront financing: This may include state grant programs, utility rebates, state green banks, credit unions, community development finance institutions and energy service companies.

Additional Resources

- BlueGreen Alliance: [Making Clean Energy Tax Credits Deliver for the Public](#)
- Lawyers for Good Government: [Clean Energy Tax Navigator](#)
- Catholic Health Association of the United States: [Bon Secours Mercy Looks to Federal Incentives for Big Savings on Geothermal System](#)

Additional Considerations

With the shifting priorities of a new administration, the clean energy tax credits may become a target. Here's what we know: Because these clean energy tax credits are the law of the land, any attempt to challenge these credits must be done by passing a new law through Congress and not through executive orders. To stay up to date on the continued availability of direct pay, go [here](#).

For questions or to learn more about direct pay, contact:

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Case study

In Washington state, Family Health Centers is installing solar panels and battery storage to support the rural population of Okanogan County. Combining a Washington State Department of Commerce grant with the expected 30 percent reimbursement through direct pay is expected to fully cover the costs of the project. Solar plus battery storage will form a resilient microgrid that will be essential during frequent power outages to preserve medications and vaccinations and to provide uninterrupted medical and dental services to the community.

ⁱ www.energy.gov/eere/articles/5-things-you-should-know-about-geothermal-heat-pumps

ⁱⁱ www.healthcaredive.com/news/House-Ways-Means-committee-greenhouse-gas-emissions-hospitals-health-sector/632117