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Page Title: Decoding the Inflation Reduction Act: Fresh Guidelines on Credit Transfer | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] discusses the Inflation Reduction Act (IRA) of 2022, expanding clean energy tax credits for nonprofits, government entities and more.

Headline: Decoding the Inflation Reduction Act: Fresh Guidelines on Credit Transfer

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The [Inflation Reduction Act \(IRA\) of 2022](#) creates several new tax credits for investments and projects related to clean energy, and it expands existing credits. Many entities that have not been able to take advantage of tax credits in the past, such as nonprofit organizations and government entities, can now claim refundable credits through the IRS' elective payment system. Other taxpayers may [transfer their nonrefundable credits](#) to third parties in exchange for cash. The IRS released a [frequently asked questions \(FAQ\) document](#) in June 2023 that outlines eligibility for elective payments and procedures for energy tax credit transfers. Read on to learn more about the new program.

What Are Energy Credit Transfers?

The IRA creates new opportunities for businesses, nonprofits and other entities to monetize energy tax credits. First, [§ 6417 of the Internal Revenue Code \(IRC\)](#) creates a system that allows “applicable entities” to receive elective payments for energy tax credits. This includes:

- Nonprofit organizations that are exempt from tax under [§ 501\(a\) of the IRC](#);
- State and local governments;
- U.S. territory governments;
- Indian tribal governments;
- Alaska Native Corporations;
- The Tennessee Valley Authority; and
- Rural electric cooperatives.

These types of entities have not been able to take advantage of tax credits until now. If an applicable entity chooses to receive an elective payment for its credit, the IRS will apply the amount to the entity's tax liability, if any. The remainder of the elective payment is then refundable to the entity.

“Eligible taxpayers,” meanwhile, may not receive a refundable credit directly from the IRS. They may, however, transfer their credits to third parties in exchange for cash payments under [IRC § 6418](#). The bill defines an “eligible taxpayer” as any person or entity that does not meet the definition of an “applicable entity.”

The following 11 [tax credits](#) may be subject to elective payments or transfers:

- The alternative fuel vehicle refueling property found in § 30C(d)(1) of the IRC;
- The renewable electricity production credit, § 45(a);
- The carbon oxide sequestration credit, § 45Q(a);

- The zero-emission nuclear power production credit, § 45U(a);
- The clean hydrogen production credit, § 45V(a);
- The advanced manufacturing production credit, § 45X(a);
- The clean electricity production credit, § 45Y(a);
- The clean fuel production credit, § 45Z(a);
- The energy credit, § 48;
- The qualifying advanced energy project credit, § 48C; and
- The clean electricity investment credit, § 48E.

In some situations, taxpayers that do not meet the definition of an “applicable entity” may still be able to qualify for elective payments for tax credits under §§ 45Q, 45V or 45X of the IRC. They must request status as an applicable entity from the IRS.

Who Is Eligible to Transfer Energy Credits?

Energy credit transfers under § 6418 are available for any taxpayer that is eligible for an energy tax credit but not elective pay. The IRA uses the term “eligible taxpayers.” This may include most for-profit business entities, other organizations and even some individuals.

How Can an Eligible Taxpayer Transfer Their Credits?

The IRS leaves most of the details of negotiating a price for an energy credit transfer to the taxpayer and the prospective buyer. Section 6418(g)(1) allows the IRS to require taxpayers to provide “information...or registration” in order to “prevent[] duplication, fraud, improper payments, or excessive payments.” According to the FAQ document, the IRS is working on a “pre-filing registration process” for both § 6417 elective payments and § 6418 transfers. It will provide more information later this year.

[Proposed regulations issued by the IRS](#) outline a possible registration process for energy tax credit transfers:

- Completion of a registration form through an online portal to be provided by the IRS;
- Receipt of a registration number prior to making a transfer election;
- Receipt of registration numbers for each credit property; and
- Provision of information about the taxpayer, the tax credits and the credit properties.

A “credit property” is a property for which a taxpayer is claiming any of the eligible energy tax credits listed above.

Once the taxpayer has completed the registration process, they may complete the transfer of their credits to one or more third parties. They will have to disclose this on their tax returns for that tax year.

What Are the Tax Consequences for Credit Purchasers?

A taxpayer who purchases an energy tax credit, known as a “transferee,” may claim the value of the credit against their own federal income tax liability. The proposed regulations for § 6418 transfers suggest that transferees will be subject to the [restrictions on passive activity](#) established by § 469 of the IRC. This may limit the pool of taxpayers that might be interested in purchasing the credits.

How Will the IRS Tax the Proceeds from Credit Transfers?

A transferee must pay in cash for a credit transfer. Section 6418(b) states that this amount is not part of the taxpayer's gross income. The transferee may not claim it as a deduction.

Learn More About Energy Credit Transfers

The IRA provides many opportunities for businesses and other organizations to claim tax credits for clean energy investments, and to monetize those credits. The process can be confusing and overwhelming, especially since the IRS is still developing many of the rules and procedures. Help is available for taxpayers who want to take full advantage of what the IRA is offering.

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If you have any questions or would like additional information, please contact [NAME] in our [DEPARTMENT] at [NUMBER] or [EMAIL].

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