Southwest Michigan School Business Officials Conference

Leveraging Tax Credits for Schools

plante moran | Audit. Tax. Consulting. Wealth Management. | 100 years

Who are we?

Amy Forester
Partner, Tax Solutions
Tax Credits and Incentives
Practice Leader

Amber Amelio
Senior Manager, Tax Solutions
Inflation Reduction Act Practice
Expert

Why are we here?

The Inflation Reduction Act (IRA) created new sources of funding for capital improvements through expanded income tax credits.

The tax credits are complex and may pose practical challenges. However, careful planning will allow you to pursue these credits as an alternative financing source for improvements that might already be planned.

How does this all work?

Identify opportunities and plan for credits

- Evaluate capital improvement plans with an eye towards potential tax credits and incentives
- Integrate tax credit requirements into contracts and overall construction or acquisition plans
- Account for timing of tax refunds in project financing

Complete qualifying actions

- Construct the qualifying equipment or acquire eligible property and place such items in service
- Document completion of tax credit requirements such prevailing wage and apprenticeship hours
- Track project costs carefully to prepare for tax filings

Prepare and file tax credit return

- Build documentation to support the eligibility of the project and quantify the eligible basis
- Complete pre-filing registration with the IRS
- Prepare and file Form 990-T to claim the tax credits
- Receive the cash refund from the IRS

What's different about the IRA?

Direct Pay for Tax-Exempts

The IRA opened tax credit benefits to those without traditional tax liabilities through direct pay.

While this greatly expands the pool of credit-eligible organizations **it comes with the requirement to build tax positions and complete tax filings**.

Organizations eligible for direct pay include **any tax-exempt entity, any State or political subdivision**, an Indian tribal government, any Alaska Native Corporation, the Tennessee Valley Authority, and any rural electric cooperative.

Expansive Green Energy Incentives

The IRA both expanded existing credits and created new credits, all with the goal of driving the adoption of green energy technologies**.**

The tax credits coordinate with other incentives and funding programs to address demand side and supply side aspects of the green economy.

Key opportunities for schools

§48 Investment Tax Credit (ITC)
- Installation of renewable energy equipment (wind, solar, biogas, fuel cells), energy storage, and geothermal equipment.

§45W Commercial Clean Vehicles
- Acquisition of electric, hybrid, or fuel cell vehicles and mobile machinery

§30C Alternative Fuel Refueling Property
- Installation of equipment to refuel vehicles with electricity, biodiesel, natural gas, hydrogen, ethanol (at least 85%), and clean transportation fuels.

§179D Energy-Efficient Commercial Building Property
- Accelerated deduction available for installation of lighting, HVAC, or building envelope improvements that reduce energy and power costs.

Section 48 – Investment Tax Credit

The Energy Credit Now and Into the Future

Sec. 48/ 48E: The ITC Basics

Key aspect	Details
Place in service	• The taxpayer must place in service "energy property."
Energy property §48 applies to projects where construction began **before** January 1, 2025 §48E applies to projects placed in service after December 31, 2024	• Wind, Solar, Geothermal, Energy Storage Technology • Combined Heat and power, Biogas, Microgrid controllers, waste energy recovery property • Note: After Jan. 1, 2025, any energy technology with a greenhouse gas emissions rate of zero will be considered eligible for the ITC (also must produce electricity of be EST
Timing	• Amended credit applies to property placed in service after Dec. 31, 2022 • Construction of facility must have begun before Dec. 31, 2024 for §48 • Construction of facility must have begun before Dec. 31, 2032 for §48E
Core credit	• Calculated as a percentage of the basis of eligible property that has been placed in service during the year • 6% Base; Increase to 30% if meet PWA or under 1mW
Bonus Credits	• **Domestic content** – Up to 10% increase if requisite percentage of steel and manufactured components were produced within the U.S. • **Energy community** – Up to 10% increase if project located within an energy community • **Low-income community or impact** – Additional credits may be allocated to a project through a competitive program administered by the Dept. of Energy. (Also depends on location)

Maximizing the ITC

6% or 30%
+10% domestic
+10% energy community
= 50% likely maximum

Base credit and increased amount

- The credit starts at 6% of the basis of qualifying property
- That is increased to 30% if either:
  - The project has a maximum net output of less than 1 megawatt (electrical or thermal energy), or
  - Prevailing wage and apprenticeship requirements are satisfied

Bonus credits are available for

- Domestic content – The credit is increased by 10% of the basis if a requisite percentage of steel and manufactured components were produced within the U.S.
- Energy community – The credit is also increased by 10% of the basis if the project is located within an energy community, as defined by the IRA (see Dept. of Energy website for maps).
- Low-income community or impact – Additional credits may be allocated to a project through a competitive program administered by the Dept. of Energy.

Rooftop Solar Example

- Solar PV arrays on the roofs of three different buildings
  - Two buildings are within an energy community eligible census tract and the third is not
- The projects were completed at various times during 2024 under different installation contracts
- Each solar array cost $400,000 to construct and install
  - Includes a new roof for the buildings, racks to hold the solar panels, the solar panels, and all the wiring to transmit the electricity to the breaker
- Each solar array has a maximum output of 750 kW
- Laborers were not paid prevailing wage rates and apprentices were not employed for the project
- The country of origin for project materials could not be verified

ITC Example: Eligible Basis and Calculation

Item	Total Cost	Eligible Basis?	Credit-Eligible Cost
New Roof	$200,000	No	$0
Solar Racks	$25,000	Yes	$ 25,000
Solar Panels	$125,000	Yes	$125,000
Wiring for Transmission	$50,000	Yes	$ 50,000
Total Eligible Basis	**$400,000**		**$200,000**

	Property 1	Property 2	Property 3
Base Credit % + Enhanced Credit % + Bonus Credit % **Total Credit %**	6% + 24% + 10% **40%**	6% + 24% + 10% **40%**	6% + 24% + 0% **30%**
× Eligible Basis	40% × $200,000	40% × $200,000	30% × $200,000
Credit Per Property	**$ 80,000**	**$ 80,000**	**$ 60,000**

The Fine Print

Prevailing wage

- Requires workers constructing facilities to be paid at least a prevailing wage
- Extends to contractors and subcontractors
- Wage data by role and county are maintained on sam.gov by the Department of Labor
- Will generally apply to facilities where construction begins after Jan. 29, 2023
- Key implications: Will need to account for this in contracts; higher upfront costs for long-time benefits

Apprenticeship hours

- Requires a specified percentage of total labor hours to be completed by qualified apprentices
- Requires a daily ratio of apprentices to journeymen to be satisfied
- Total labor hours include contractors and subcontractors
- The required percentage phases in over time: 10%, 12.5%, and 15%
- A good faith exception is available if apprentices are formally requested but either denied or no response is received

Domestic content

- Requires that any steel, iron, or manufactured product that is a component of the facility was produced in the United States.
- Some manufactured products can be sourced from outside the United States as long as at least 40% of the total manufactured costs were produced in the United States (20% for offshore wind facilities).
- **Tax-exempt entities that fail to meet domestic content requirements (or an exception) will also face a 10% haircut on their calculated credit amount for projects beginning construction in 2024 – reduction percentage increases for projects beginning in 2025 and beyond

Energy community

- Brownfield sites under CERLCA
- Statistical areas that had coal, oil, or natural gas production and now has unemployment over the national average
- Census tracts in which a coal mine or coal-fired electric facility has been closed

Commercial Clean Vehicles and Supporting Infrastructure

Sec. 45W –Commercial Clean Vehicles

Key aspect	Details
Acquisition timing	• The taxpayer must acquire qualifying vehicles after Dec. 31, 2022, and before Jan. 1, 2033
Qualified commercial clean vehicles	• Vehicles manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails) • Certain mobile machinery Note: qualified vehicles must be manufactured by a "qualifying manufacturer" – See IRS list of such manufacturers.
Credit calculation	Equal to the lesser of • The incremental cost of the vehicle (as compared to a comparable gas/diesel vehicle), or • The applicable % of the vehicle cost (30% for EVs; 15% for all others) Subject to the per-vehicle limitation of: • $7,500 for those under 14,000 lbs. in GVWR; and • $40,000 for those over 14,000 lbs. in GVWR
Core credit	• Calculated as a percentage of the basis of eligible property that has been placed in service during the year

EV Calculation

- Credit is the lesser of:
  - Percentage of Cost Basis
    - Electric (including hydrogen fuel cell) = 30%
    - Hybrid = 15%
  - Incremental Cost of the Vehicle
    - For 2024:
      - EVs < 14,000 lbs. = $7,500
      - Plug-in Hybrids < 14,000 lbs. = $7,000
      - EVs ≥ 14,000 lbs. = $40,000
    - Incremental cost will be given annually by the DoE and IRS

EV Example

Example:
- 3 buses purchased
- All to be used in the U.S.
- For each bus:
  Cost: $800,000
  GVWR: 44,000lbs. (Class 8)
  Battery Capacity: 525 kW
- Placed in service on December 1, 2024
- Manufactured by New Flyer of America

Step	Calculation
Incremental Cost	$ 40,000
Percentage of Basis	$800,000 × 30% = $240,000
Lesser Amount	$ 40,000
3 Identical Buses	$ 40,000 $ 40,000 + $ 40,000
Total Commercial Clean Vehicle Credit	**$120,000**

Sec. 30C – Alternative Fuel Refueling Property

Key aspect	Details
Placed in service dates	Eligible property placed in service after Dec. 31, 2022 and before Jan. 1, 2033
Eligible property	(1) fuels composed of at least 85% ethanol, natural gas, liquefied petroleum gas, or hydrogen; (2) mixtures, including biodiesel, diesel fuel, or kerosene; (3) electricity (EV chargers); and (4) transportation fuels under Sec. 45Z(d)(5)
Credit calculation	Base credit of 6% (increased to 30% if satisfying prevailing wage and apprenticeship requirements)
Limitations	Limited to $100,000 for depreciable property (per single unit), $1,000 in any other case (e.g., nonbusiness use).
Eligible census tract	Property must be located in an eligible census tract: • Nonurban area (as defined under most recent census data) • Sec. 45D(e) low-income community: a census tract w/ poverty rate at least 20% See map here for eligible locations

EV Charging Stations Example

- An EV charging station was installed at each of three locations
- One of these locations was in an eligible census tract and the other two were not
- Each charging station can connect to two vehicles simultaneously
- The chargers were installed during the fall of 2024
- All mechanics and laborers on the project were paid prevailing wages
- 20% of the construction labor hours were completed by registered apprentices and the daily ratio of journeymen to apprentices was met throughout construction
- Each charger cost $100,000 to install

EV Charger Example: Eligible Basis and Calculation

Item	Total Cost	Eligible Basis?	Credit-Eligible Cost
New pavement and concrete	$10,000	No	$0
EV Charger	$70,000	Yes	$70,000
Wiring to charger	$20,000	Yes	$20,000
Total Eligible Basis	**$100,000**		**$90,000**

	Property 1	Property 2	Property 3
Qualifies for credit?	Yes	No, not in an eligible census tract	No, not in an eligible census tract
Base Credit % + Enhanced Credit % **Total Credit %**	6% + 24% **30%**		
× Eligible Basis	30% × $90,000		
Total Credit	**$27,000**	**$0**	**$0**

Sec. 179D: Energy Efficient Commercial Buildings

Opportunities for energy-efficient improvements

Sec. 179D: The basics

Key aspect	Details
What is it?	Modified existing program to provide accelerated depreciation for energy-efficient commercial buildings
Eligible property	1. Interior lighting 2. Building envelope (walls, foundation, roof, windows, etc.) 3. HVAC or hot water systems Must meet Reference Standard 90.1
Deduction calculation	50 cents/sq. ft to $5/sq. ft., depending on factors (including PWA)
Enhanced deduction	The benefits are further enhanced if prevailing wage and apprenticeship hour requirements are met.
Deduction usage	• Sec. 179D benefit now available to "specified tax-exempt entities" through a transfer mechanism • This program can be utilized again after three years

How to prepare for future scrutiny?

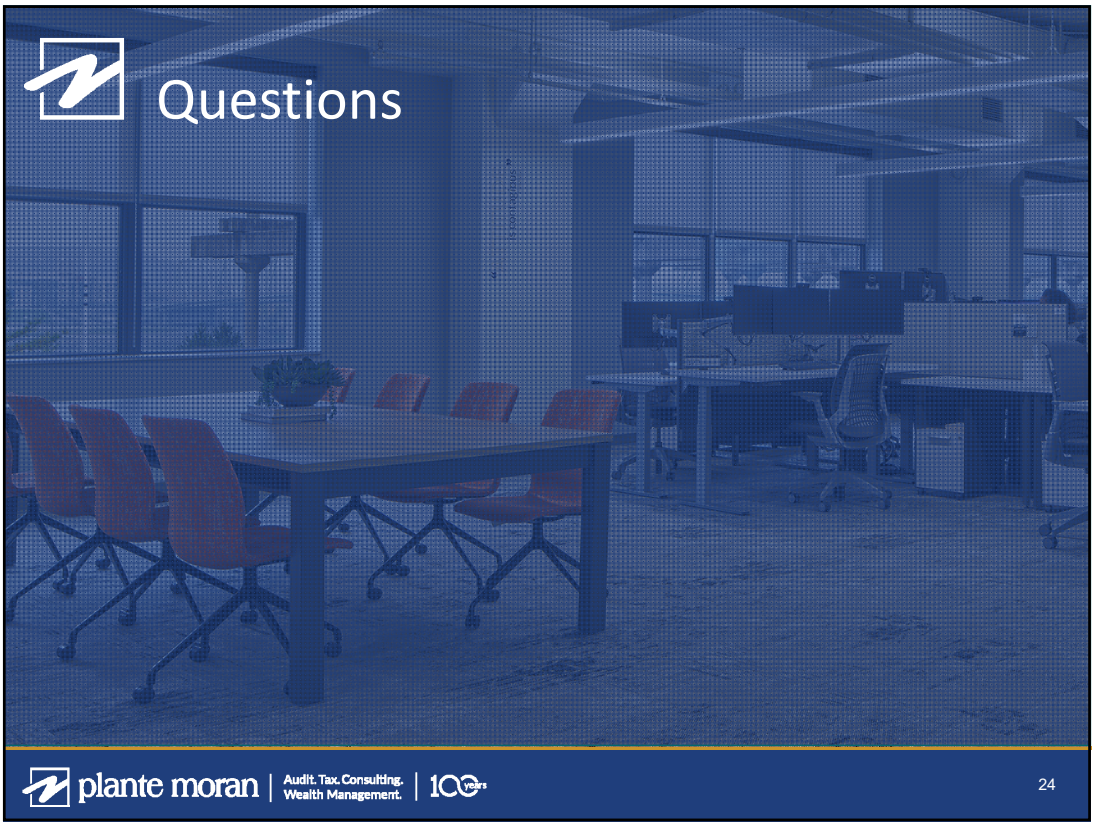
The lucrative nature of IRA-based credits suggests that tax positions may be subjected to future review. Contemporaneous documentation is the key for defense.

What documentation is needed?	Complete an ITC study / tax package

• Project proposal materials outlining expected project
• Construction agreements
• Budget projections/actual expense support
• Other grant/incentive documentation (if applicable)
• Prevailing wage and apprenticeship documentation:
  • Payroll records reflecting hours worked in each wage class along with actual wages paid to each worker constructing the facility.
  • Copies of written requests for apprentices or agreements with apprenticeship programs.
  • Records reflecting the daily ratio of apprentices to journey workers including payroll records.
• Additional information relevant to the project as determined
	To support an ITC filing, a study or tax package is recommended. Key items to be documented:
	• the costs eligible to be included in the basis of the project
	• the total amount of the credit to be generated by client in relation to the energy project(s)
	• appropriate support for wage and apprenticeship requirements
	• appropriate support for domestic content requirements – bonus or phase out exception(s)

Key Takeaways

- Must include key stakeholders: tax professionals, legal counsel, Finance, engineering team, facilities team
- The lucrative nature of IRA-based credits suggests that tax positions may be subjected to future review
- Contemporaneous documentation is the key for defense
  - Eligibility determinations/ tax positions
  - Costs eligible to be included in the basis of the project- Consider cost segregation study
  - The total amount of the credit to be generated by client in relation to the energy project(s)
  - Appropriate support for wage and apprenticeship requirements
  - Appropriate documentation substantiating domestic content or exceptions (if applicable)



Contact Us

Amy Forester

Amy.Forester@plantemoran.com

269-567-4595

Amber Amelio

Amber.Amelio@plantemoran.com

312-602-3659