EPA CLEAN SCHOOL BUS

Overview of IRS Tax Credits w/ Department of the Treasury
January 16, 2025 @ 1 PM ET

Office of Transportation and Air Quality
U.S. Environmental Protection Agency

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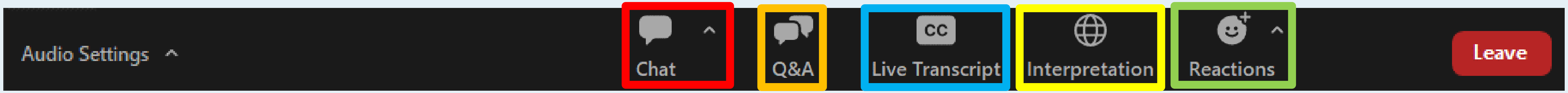

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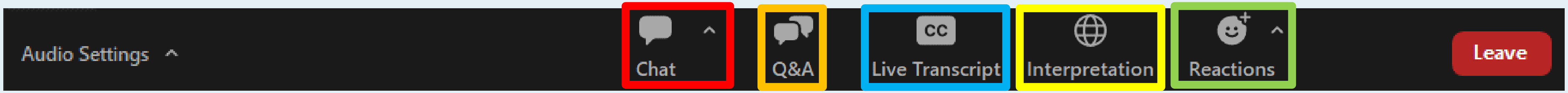

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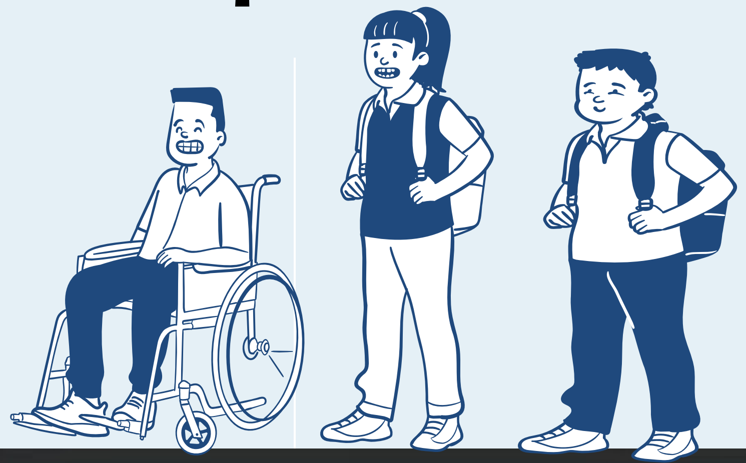

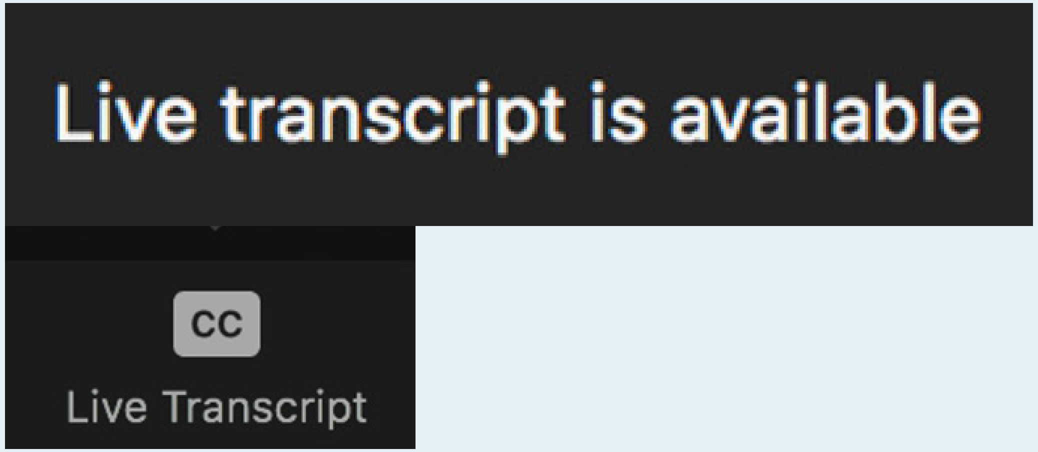

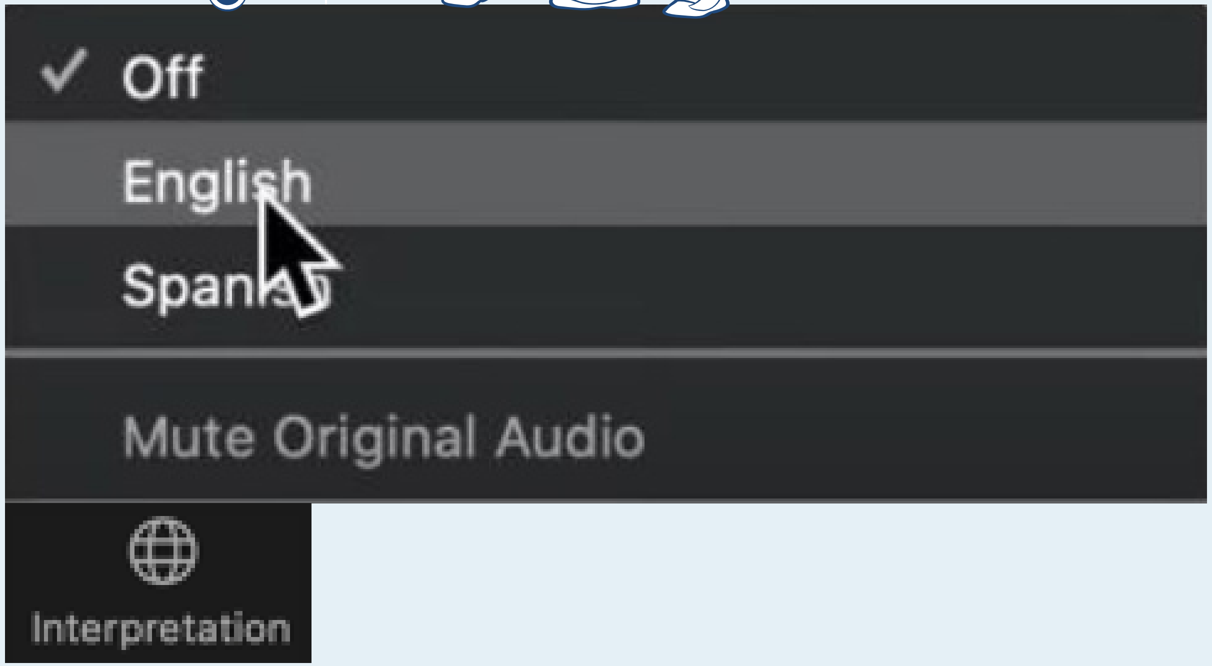

AGENDA

Overview of the Clean School Bus (CSB) Program

Overview of IRS Tax Credits w/ Department of the Treasury

Q&A

Next Steps and Resources

Overview of the Clean School Bus Program

Bipartisan Infrastructure Law

- The Bipartisan Infrastructure Law (BIL) provides **$5 billion** over five years (FY22-26) for the replacement of existing school buses with zero-emission and clean school buses.

CSB Funding Opportunities

- The EPA has offered rebates and grants in past funding opportunities.
- The EPA is offering another round of rebate funding.
- The 2024 CSB Rebate Program is the fourth CSB funding opportunity. The deadline to apply was **January 14th, 2025, at 4:00pm EST.**

EPA CLEAN SCHOOL BUS

Why Clean School Buses?

Reduced Greenhouse Gas Emissions
CSBs emit zero or low tailpipe emissions.

Cleaner Air
CSBs result in cleaner air on the bus, in bus loading areas, and in the communities in which they operate.

Cost Savings
Replacing diesel school buses with CSBs often reduces maintenance and fuel costs.

Resiliency
Vehicle-to-Grid (V2G) capable CSBs can provide power to the grid or buildings during power shutdowns.

Improved Student Attendance & Achievement
The transport of students with CSBs has been linked to student attendance and academic achievement improvements.

January 2025

Overview of vehicle-related credits for school buses and elective pay

Office of Tax Policy, Department of the Treasury

Agenda

- Ground Rules and Disclaimers
- Qualified Commercial Clean Vehicle Credit (45W)
- Alternative Fuel Vehicle Refueling Property Credit (30C)
- Credit Monetization – Elective Pay and Transferability

Ground Rules: Disclaimer

- This deck provides an overview of certain Inflation Reduction Act tax provisions for general informational purposes only and **is not itself tax guidance**.

- This deck relies on simplifications and generalizations to convey high-level points about Inflation Reduction Act tax provisions.

- Please **refer to guidance** issued by the IRS for detailed information on the rules associated with Inflation Reduction Act tax provisions.

Ground Rules: Questions and Comments

- The content in this presentation is based on the statute, proposed, final, and temporary regulations, and other guidance.
- We will **not be able to comment** on opinions, interpretations, or specific-taxpayer related questions. You may also choose to consult with a tax advisor.
- We will **not be able to provide substantive information** beyond what is in the statute and the publicly issued guidance.

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- Ground Rules and Disclaimers
- Qualified Commercial Clean Vehicle Credit (45W)
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Qualified Commercial Clean Vehicle Credit (45W) – Overview

- 45W allows an **income tax credit** to a taxpayer who purchases and places in service a **qualified commercial clean vehicle** during the taxable year

- The credit amount is equal to the lesser of:
  - 30% of basis (generally, cost) of the qualified vehicle (15% in the case of vehicles with a gasoline or diesel powered engine), or
  - The **incremental cost** of the vehicle (described in subsequent slide)

  Up to a credit maximum of **$40,000** in the case of a vehicle with a GVWR of 14,000 pounds or more (otherwise $7,500)

- The section 45W credit is available for elective pay but **not** eligible for transferability.

Qualified Commercial Clean Vehicle Credit (45W) – Vehicle Eligibility

- Key vehicle eligibility requirements:
  - Made by a qualified manufacturer. See list at Manufacturers for Qualified Commercial Clean Vehicle Credit | Internal Revenue Service (irs.gov)
  - Is acquired for use or lease, not for resale
  - Treated as motor vehicle for purposes of Clean Air Act and manufactured for use on public roads or mobile machinery (Treasury is requesting comment on eligibility of off-road mobile machinery)
  - Battery capacity of at least 15 kwh (7 kwh if GVWR of less than 14,000 pounds) OR be a fuel cell vehicle
  - Used predominantly in the 50 states + Washington, DC
    - Vehicles used in the U.S. territories may also qualify if owned by a U.S. corporation or U.S. citizen (other than a citizen entitled to the benefits or section 931 or 933)
  - Electric vehicles, plug-in hybrids, or hydrogen fuel cell vehicles (not other types of fuel)
- No 45W credit is allowed with respect to any vehicle for which a credit was allowed under section 30D (credit for new clean vehicles).

Qualified Commercial Clean Vehicle Credit (45W) – Incremental Cost

- A Qualified Commercial Clean Vehicle's incremental cost is the excess of the purchase price of a clean vehicle over the price of a comparable gas or diesel internal combustion engine vehicle. The comparable vehicle must be comparable in size and use.
- The 45W Notice of Proposed Rulemaking (NPRM) would provide pathways enabling taxpayers to determine the incremental cost, including:
  - Refer to incremental cost safe harbor values published by Treasury and the IRS;
  - Rely on a manufacturer's written incremental cost determination; *or*
  - Calculate the incremental cost vs. a comparable ICE vehicle based on the comparative costs of the vehicle powertrains.
  - *For more information, please refer to the NPRM*
- Taxpayers may continue to use incremental cost safe harbors set out in Notice 2023-9 and Notice 2024-5, which provide incremental cost values that taxpayers may rely on when claiming the credit.

Qualified Commercial Clean Vehicle Credit (45W) – Taxpayer Eligibility

- The section 45W credit is a **general business income tax credit** that is generally available to businesses and individuals **with income tax liability** that place in service an eligible qualified commercial clean vehicle during the taxable year for business use.
  - The taxpayer claiming the credit should be the **owner** of the vehicle.
- The section 45W credit is one of 12 credits that are available for **elective payment** for certain applicable entities, which under the **regulations** include:
  - An organization exempt from income tax by reason of section 501(a) of the Code;
  - A State, the District of Columbia, a political subdivision thereof, or any agency or instrumentality of any of the foregoing; or
  - An Indian tribal government, a subdivision thereof, or any agency or instrumentality of any of the foregoing.
- The section 45W credit is **not** eligible for transferability.

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Alternative Fuel Vehicle Refueling Property Credit (30C)

- 30C allows an **income tax credit** equal to 30% for individuals and up to 30% for businesses (if prevailing wage and apprenticeship requirements are met) of the cost of purchase and installation of any **qualified alternative fuel vehicle refueling property** placed in service by the taxpayer during the taxable year
  - Applies to electric vehicle refueling property
  - Also applies to refueling property for alternative fuels such as CNG, LNG, or hydrogen

- Credit is limited to, with respect to any **single item** of qualified alternative fuel vehicle refueling property placed in service by the taxpayer:
  - $100,000 for **business use property**, and
  - $1,000 for **personal use property**

- Property must be placed in service in certain eligible census tracts:
  - A low-income community (as defined for purposes of the New Markets Tax Credit) or
  - A non-urban census tract
- Please refer to the 30C Notice of Proposed Rulemaking, including examples under proposed regulation § 1.30C-2(e), for additional information

Alternative Fuel Vehicle Refueling Property Credit (30C) – Qualified Alternative Fuel Vehicle Refueling Property

- The 30C credit is available for **qualified alternative fuel vehicle refueling property** (30C Property) for the recharging of electric vehicles or for the storage and dispensing of a qualified alternative fuel into a fuel tank of a motor vehicle.
- Each charging port or fuel dispenser is considered a single item of 30C property, which includes components that are functionally interdependent or an integral part of the recharging or refueling property.
- Functionally interdependent or integral part property (e.g., electric panel, conduit/wiring, smart charge management system) associated with multiple chargers and installed in a different tax year than one or more of the associated chargers may only be creditable in the year the functionally interdependent or integral part property is placed in service. See Example 5 under proposed regulation § 1.30C-2(e) for more details.
- 30C property includes (non-exhaustively):
    - **EV Charging Equipment**: e.g. EV chargers, charging ports, connectors, wall mounts, electric panel, and conduit wiring for the charging property
    - **Energy Storage Property**: e.g. Battery energy storage systems used as backup electricity sources and to moderate electricity pricing.
    - **Alternative Fuel Refueling Infrastructure**: e.g. Bulk hydrogen storage tank, cryogenic pumps, evaporators, cascade storage systems, electrical supply equipment, high-conductivity concrete pads, firewalls, piping, and hydrogen fuel dispensers.

Alternative Fuel Vehicle Refueling Property Credit (30C) – Eligibility

- The section 30C credit is an income tax credit that is generally **available to businesses and individuals** with tax liability that place in service **qualified alternative fuel vehicle refueling property** during the taxable year.

- The section 30C credit is one of 12 credits that are available for **elective payment** for applicable entities.

- The section 30C credit is also eligible for **transferability**.

- More information on alternative fuel vehicle refueling infrastructure can be found at Argonne National Laboratory's online resources. (Note: The tools, including mapping tools, are not formal tax guidance.)

Special Rules: Tax-Exempt and Governmental Entities

Background

- Since 2005, sellers of 30C property to tax-exempt or governmental entities have been able to claim the section 30C credit themselves if the seller notifies the entity of the amount of the credit.
- Post-IRA, **sellers remain eligible to claim the section 30C credit** for sales of 30C property to tax-exempt or governmental entities.
- The **IRA added elective pay for 30C**, such that tax-exempt and governmental entities can elect to receive a payment in the amount of the credit for 30C property placed in service even if the entity does not have tax liability.

NPRM

- To harmonize these options, the **proposed regulations provide that tax-exempt and governmental entities have the option to claim elective pay for the section 30C credit** if such entities **notify the seller** of their intention to make an elective pay election. If an entity makes this notification, the seller could not claim the section 30C credit for the same property.
- Entities should do their own **analysis** to determine **which option is best** for their situation.
- The proposed regulations request comment on this notification process, including the timing of such notifications and any necessary transition rules.

30C and Other Federal, State, and Utility Rebates: NEVI

NEVI:

- An otherwise eligible taxpayer may claim the 30C credit and "stack" it with the National Electric Vehicle Infrastructure (NEVI) EV charger incentives. The NEVI incentive amount would generally be treated as taxable and accordingly does not reduce a taxpayer's cost basis in the property.
- **For Example**:
  - Business ABC pays $100k for an EV charger used in its business.
  - Business ABC gets $10k from NEVI. The $10k NEVI incentive is taxable.
  - **Business ABC may claim a $30k 30C credit** ($100k × 30% = $30k), as opposed to a $27k 30C credit ($90k × 30% = $27k), provided it meets PWA and other requirements.

30C and Other Federal, State, and Utility Rebates: Rebates and State Energy-Efficiency Incentives

Rebates & State Energy-Efficiency Incentives:

- There are different tax rules for rebates and state energy-efficiency incentives
  - To be treated as a **rebate** for tax purposes, and thus generally as a nontaxable purchase price reduction, the payment must be based on or related to the cost of the property, received from someone having a reasonable connection to the sale of the property (e.g., the manufacturer, distributor, or seller), and not represent a payment or compensation for services provided by the taxpayer.
  - Generally, for tax purposes, **state energy-efficiency incentives** do not reduce the purchase price or cost of property, unless the incentive qualifies as a rebate for tax purposes. Such incentives could be included in the taxpayer's gross income.
- While a particular incentive may be labelled as one or the other, it might not be considered as such under federal income tax law.
- Coordination of the 30C credit computation with rebates or state or local government incentives **depends on the facts and circumstances**, including the characteristics of the relevant payment or other economic benefit. It's best to consult with a tax advisor to determine how to treat the incentive for tax purposes.

30C and Other Federal, State, and Utility Rebates: Business Model Variations and Eligible Entities

- The proposed rules address certain business model variations for recharging and refueling property:
  - **Electric company incentive program**: See example set forth in § 1.30C-2(e)(10) of the proposed rules, which explains which items of property would constitute 30C property and how a taxpayer would figure their credit when participation in an electric company incentive program results in differing ownership of the 30C items of property and certain associated property.
  - **Local utility providing charging services and retaining ownership of property**: See example set forth in § 1.30C-2(e)(11) of the proposed rules, which explains why the local utility company, but not the business entity using the charging services, would be eligible for the 30C credit.

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Overview of Credit Monetization

- The Inflation Reduction Act added two methods for monetizing credits:
  - **Elective Pay** for "applicable entities" (section 6417) and
  - **Transferability** for taxpayers other than applicable entities (section 6418)
- **Treasury and the IRS have issued guidance** on these credit monetization provisions, including:
  - Final rules under section 6417 and 6418.
  - Final rules providing flexibility for applicable entities that co-own clean energy projects and would like to utilize elective pay.
  - Notice of Proposed Rulemaking regarding the Federal tax classification of entities wholly owned by Indian Tribal governments and its application with respect to making certain elective pay elections.
- Organizations will need to use **IRS Energy Credits Online** to complete required pre-filing registration.

Overview of Elective Pay

- With "**elective pay**" (often informally called "direct pay"), tax-exempt and governmental entities that do not owe Federal income taxes will, for the first time, be able to receive a **payment equal to the full value of tax credits for building qualifying clean energy projects or making qualifying investments**.
- Unlike competitive grant and loan programs, in which applicants may not receive an award, elective pay allows entities to get their payment if they meet **the requirements for both elective pay and the underlying tax credit**.
- The entities eligible for elective pay (applicable entities) would not normally owe federal income tax. However, by **filing a return and using elective pay**, these entities can receive **tax-free cash payments** from the IRS for clean energy tax credits earned, so long as **all requirements** are met, including a pre-filing registration requirement.
- Applicable entities can **use elective pay for** 12 of the Inflation Reduction Act's tax credits, including **the section 30C and 45W credits**.

Applicable Entities for 45W and 30C

	Eligible for elective Pay on 45W	Eligible for elective Pay on 30C
Tax-exempt organizations	✓ *Described in §§ 501-530, other than those described in § 521*	✓ *Described in §§ 501-530*
States (including DC) and political subdivisions such as local governments	✓	✓
Indian tribal governments	✓	✓
Agencies and instrumentalities of state, local, and tribal governments	✓	✓
Alaska Native Corporations		✓
The Tennessee Valley Authority		✓
Rural electric co-operatives		✓

Special Section 6417 Rule Regarding Investment-Related Tax Credits Funded with Grants and Forgivable Loans

- The **regulations** also include a special rule that enables applicable entities to **combine grants and forgivable loans with** investment-related tax credits including **45W and 30C**.
- If an investment-related credit property is funded by a tax-free grant or forgivable loan, entities get the **same value** of eligible tax credit as if the investment were financed with taxable funds—provided the credit plus 'restricted tax-exempt amounts' do not exceed the cost of the investment.
- <u>For example</u>:
  - ➢ A school district receives a tax-exempt grant in the amount of $300,000 to purchase an electric school bus. Under IRA, clean commercial vehicles are eligible for a tax credit of up to $40,000.
  - ➢ The school district purchases the bus for $400,000, using the grant and $100,000 of the school district's unrestricted funds.
  - ➢ The school district's basis in the electric bus is $400,000 and the school district's section 45W credit is $40,000.
  - ➢ Since the amount of the restricted tax-exempt grant plus the amount of the section 45W credit ($340,000) is less than the cost of the electric bus, the school district's 45W credit is not reduced.

How do I claim and receive an elective payment?

- **Identify and pursue** the qualifying project or activity. You will need to know what applicable credit you intend to earn and use elective pay for.
- Complete your project and **place it into service**.
- Determine your **tax year**, if not already known, to determine when your tax return will be due.
- Complete **pre-filing registration** with the IRS.
  - This will include the credit(s) you intend to earn, among other information.
  - Upon completing this process, the IRS will provide you with a registration number for each applicable credit property.
  - For more information, please refer to IRS Energy Credits Online on elective pay and transferability
- **File your tax return** by the due date (or extended due date) and **make a valid elective pay election.**
  - Provide your registration number on your tax return as part of making the elective pay election.
  - A valid election allows you to receive payment as a refund for the amount of the credit (or if applicable, offset your tax liability and receive a payment for any remaining amount).
- **Receive payment** after the return is processed.
  - Payment cannot be received until the due date of the return, even if the taxpayer files early.

Example Timeline: Local Government Project Placed Into Service in 2025*

A local government that makes a clean energy investment that qualifies for a tax credit (such as purchasing a qualifying electric school bus) can file an annual tax return (via Form 990-T) with the IRS to claim elective pay for the full value of the investment tax credit, as long as it meets all of the requirements, including a pre-filing registration requirement.

As the local government would not owe other federal income tax, the IRS would then make a refund payment in the amount of the credit to the local government.

In 2025	Early 2026, before tax return is due	By May 15, 2026 and up to November 15, 2026	After return is processed
Qualifying electric school bus is placed into service	Complete pre-filing registration with the IRS	File Form 990-T (between the due date to file the return and the 6-month extended due date the regulations would automatically allow for that return)	Receive payment

*assume the local government is a calendar year taxpayer.

Overview of Transferability (§ 6418)

- The Inflation Reduction Act enacted section 6418 which allows an **eligible taxpayer** (“transferor”) to **transfer all or a portion** of any of **11 clean energy credits** to unrelated third-parties (“transferee(s)”) in **exchange for cash**. This **includes the 30C credit**, but **does not include the 45W credit**.
    - **Eligible taxpayers** generally are taxable entities, such as businesses. Eligible taxpayers do not include applicable entities, which can only use elective pay (§ 6417).
    - The transferor and transferee would negotiate and agree to the terms and pricing.
    - Payments are not included in the transferor’s gross income and cannot be deducted by the transferee.
    - The transferee would use the credit to offset its tax liability in its first taxable year ending with, or after, the taxable year of the transferor.
    - Under the section 6417 regulations, transferees would not be able to claim elective pay for transferred credits.
- Transferability will **allow eligible taxpayers to take advantage of these clean energy tax credits**, even if they do not have sufficient tax liability to fully utilize the credits themselves.

Transferability Mechanics

- The regulations provide that a transferor **needs to register** each property or facility (or component of carbon capture equipment) to which it desires to transfer credits, through IRS Energy Credits Online.
- The regulations also provide that a transferor and transferee needs to jointly execute a **transfer election statement** and file such statement with their annual returns for the tax year in which the credit is transferred.
- **No further transfers** are allowed by the transferee.
  - The regulations provide that **intermediaries** can be used to broker transactions.
- Transferors can transfer **all or a portion** of an eligible credit.
  - Transferred credits **need to include a proportionate share** of each applicable bonus credit amount: bonuses cannot be transferred separately from base credits.
  - However, there is **no limit on the number of transfer elections** or number of transferees for which a transferor can make a transfer election.

Closing

More Information

- Commercial Clean Vehicle Credit | Internal Revenue Service (irs.gov)
- Alternative Fuel Vehicle Refueling Property Credit | Internal Revenue Service (irs.gov)
- Elective Pay and Transferability | Internal Revenue Service (irs.gov)
- CleanEnergy.gov/DirectPay

Question & Answer Session

Upvote and comment on questions similar to your own.
Type your full thought so we can follow up with an answer.
Speak slowly and clearly for the captioner/interpreter.

CSB Program Website Tools and Resources

Technical Assistance

- Clean School Bus Technical Assistance
- Charging and Fueling Infrastructure Resources

Workforce Development

- Bus Manufacturer Job Quality and Workforce Development Practices
- Workforce Development and Training Resources

Educational Materials

- Clean School Bus Reports to Congress
- Benefits of Clean School Buses

All links can be found on: *epa.gov/cleanschoolbus*

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