The Inflation Reduction Act of 2022: New Incentives for Your College or University

By LaShaun King and Drew Norris, BDO USA

It's not hard for some of us to think back to the lush green lawns and stately buildings of our college and university alma maters. What if we could visualize those hallowed halls enhanced with green technologies that allow administrators to direct more future dollars to academics, athletics or other needs — and fewer dollars to utility bills? Thanks to the Inflation Reduction Act of 2022 (IRA), colleges and universities now have access to the financial incentives of investing in renewable energy as they renovate existing structures or build new ones. One of the IRA's primary goals is to cut carbon emissions 40% by 2023 while driving domestic clean energy production.

Prior to the IRA's enactment, federal renewable energy credits were promoted via nonrefundable tax credits. Since most nonprofit colleges and universities do not earn taxable income, tax credits were of little benefit to those institutions looking to invest in clean energy projects or implement other energy-efficiency measures.

To address the lack of incentives available to nonprofit organizations, the IRA created a "direct pay" election for tax-exempt entities that allows them to elect to receive a direct refund payment from the IRS for investing in renewable energy projects, clean energy vehicles, electric vehicle (EV) chargers, etc. The direct pay election is in lieu of the incentive tax credits that remain available for tax-paying entities. This is great news for nonprofit entities that want to lower their future energy costs and reduce their carbon footprints.

For example, let's say that the University of Hopes & Dreams (UHD) commenced a renewable energy project to install rooftop solar panels on its campus buildings at an estimated total cost of $100,000. Assuming UHD's project meets the prevailing wage and apprenticeship requirements of the IRA (more on that below), UHD will receive an investment tax credit of $30,000, available via the direct payment election.

Or let's say that Sunflower College operates several different vehicle fleets, including campus buses, maintenance vehicles and campus police vehicles. Some of these vehicles are at a point where the administration is weighing replacement options. The IRA includes a new credit for tax-exempt entities to receive up to 30% of the cost of qualified commercial clean vehicles placed in service prior to 2033, with credit limits capped based on the weight of the vehicle.

Colleges and universities should also consider that many current and prospective students list climate change as one of their more pressing concerns. A 2020 Cambridge Global survey found that 39% of students aged 13 to 19 in the U.S. think that climate change is the biggest issue the world faces today. The Princeton Review publishes an annual list of the Top 50 Green Colleges in the United States, while the Environmental Protection Agency has a Top 30 College & University list. Taking advantage of this opportunity to invest in more renewable energy sources can help colleges and universities stand out to prospective students.

If this sounds good so far, then let's dive a bit deeper into how the IRA and the clean energy incentives work.

IRA Major Themes

The IRA introduces a new incentive structure whereby the tax incentives for renewable energy projects may be eligible for a base rate and a "bonus rate." A college that decided to purchase a 1.5 megawatt (MW) renewable energy project would be entitled to a base rate incentive of 6% of the cost. To qualify for the bonus rate, the project would have to satisfy certain wage and apprenticeship requirements:

- The payment of prevailing wages based on the specific geographic area and job classification; and
- A minimum percentage of total labor hours must be performed by qualified apprentices.

By meeting these additional requirements, the college's 1.5 MW project could qualify for combined base and bonus rates of up to 30% of the cost. Projects under 1 MW are automatically eligible for the bonus rate.

There are additional bonus credit opportunities for projects that are placed in service after December 31, 2022:

- 10% bonus credit for meeting domestic content requirements (e.g., a certain percentage of any steel, iron or manufactured product that is part of the project at the time of completion must be produced in the United States).
- 10% bonus credit for facilities located in energy communities (e.g., a brownfield site, an area with significant fossil fuel employment or a census tract or any immediately adjacent census tract in which, after December 31, 1999, a coal mine has closed, or, after December 31, 2009, a coal-fired electric generating unit has been retired).
- 10% bonus credit for facilities with a maximum net output of less than 5 MW and located in a low-income community or on American Indian land. Unlike the other bonus incentives, the low-income added bonus must be allocated by the IRS to qualify. Without an IRS allocation, projects may not claim the bonus even if otherwise qualified.

In practice, an organization eligible for an investment tax credit at the 30% rate could expect to see an increased credit value of 40% to 50% of the project cost if applicable bonus criteria are met.

Higher Education Focal Points

Many campuses have a backlog of deferred maintenance and planned capital projects. With the expanded incentive eligibility, higher education institutions may wonder how to best incorporate these credits into their campus development or renewal strategies.

As mentioned in the examples above, colleges and universities can develop renewable energy projects in many different or combined forms (e.g., solar, fuel cell, small wind, biomass, combined heat and power, etc.) to qualify for the incentives — as long as project construction begins before 2025. In addition, the IRA now also includes energy storage, "dynamic" electrochromic glass and microgrid controllers.

Following the expiration of the historical energy credit, new technology-neutral credits will be available for qualified zero-emission facilities that begin construction after December 31, 2024. The credits begin to phase out the earlier of the calendar year when the annual greenhouse gas emissions from the production of electricity are equal to or less than 25% of the annual greenhouse gas emissions from the production of electricity in the U.S. for calendar year 2022 or 2032.

Additionally, the IRA expands the eligibility for incentives under Section 179D to nonprofit organizations for qualifying energy-saving investments such as energy-efficient interior lighting, HVAC, or the components that make up the building envelope (roofing, walls, etc.).

As previously mentioned, the IRA provides incentives for the purchase of clean vehicles from qualified manufacturers. This credit is up to $7,500 for vehicles under 14,000 pounds, or up to $40,000 for all other vehicles.

Next Steps

This may be the ideal time for institutions considering how best to incorporate investments in renewable energy or energy efficiency to have discussions with their boards of directors and other stakeholders. And for any institutions that had not previously considered incorporating renewable energy or energy efficiency into capital development or improvement plans, this is a great time to learn more about how such projects and the benefits in the act can help reduce costs now and in the future.

Regardless of where an institution is in the planning process, it is important that they discuss their plans with a trusted tax advisor. Obtaining a project feasibility analysis prior to finalizing plans will help colleges and universities reap the full advantage of the act's incentives as well as meet stakeholder goals.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. For over 50 years, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BDO Alliance USA.

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA