# Direct Pay Process

# Case Study

A case study on the Inflation Reduction Act direct pay process accomplished by Southern Connecticut State University for a geothermal system at the net-zero School of Business

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# Background

The Department of Energy and Environmental Protection (DEEP) recently spoke with the Associate Director of Sustainability Suzanne Huminski at Southern Connecticut State University (SCSU) about the university's direct pay filing process, one of the first in the state to participate in this federal tax process.

Direct pay, also known as elective pay, is an innovative federal tax mechanism within the Inflation Reduction Act of 2022 (IRA) that allows tax-exempt entities like non-profits, public schools, and churches to receive federal tax credits for clean energy projects. Tax-exempt entities can claim the value of a tax credit as a direct payment from the Internal Revenue Service (IRS). The IRS issues a payment for the full value of the credit after the entity files the correct tax documents. The entity must meet all underlying requirements for the credits, including pre-filing registration.

The direct pay provision enables tax-exempt entities to recover costs associated with making clean energy investments, including solar, clean vehicles, electric vehicle chargers, and building energy efficiency upgrades such as outdated HVAC systems. The provision is truly unique because for the first time, tax-exempt entities are able to benefit from tax credits. However, the direct pay provision is very new and that calls for local and state governments to spread awareness about this option.

# The Direct Pay Filing Process

## Prepare for pre-filing

The direct pay process starts with discerning if the tax-exempt entity should apply for the Low-Income Bonus Credit at the beginning of the calendar year. Applying for the Low-Income Bonus Credit must be done before a project is placed in service. Next, the entity should check that the project was placed in service during the relevant tax year and confirm that the project meets the tax credit eligibility criteria including any additional requirements, such as labor and wage standards. After that, the entity should collect necessary information including:

1. Tax period and any fiscal year specifics
2. Organization's Identification Number (EIN)
3. Registrant's address and contact details
4. Banking information for direct pay reimbursements
5. Collect all supporting documentation, such as labor compliance records, emissions reports, or domestic content certification, for any bonus credits.

## Pre-file

The entity must submit a pre-filing registration with the IRS. The IRS recommends pre-filing at least 120 days before the tax return due date. After a pre-filing submission has been processed by the IRS and returned, the entity will receive a registration number. A unique registration number is issued for each applicable project/property and is needed before submitting a tax return.

### File and Receive Direct Pay Reimbursement

Finally, the entity must file a tax return using the registration number and including supporting documentation. Often Form 990-T (for tax-exempt organizations) and/or Form 3800 (General Business Credit form), are needed. Credit-specific forms may also be needed. After an IRS processing period, the entity will receive a direct pay reimbursement. Payments occur after the return is processed and processing times may vary; entities must ensure banking information is accurate for prompt payment.

## Filing the Investment Credit for Southern Connecticut State University's School of Business Geothermal System

The new four-story, 67,000-square-foot School of Business at SCSU is the first CT state-owned zero carbon building which opened in September 2023. Southern Connecticut State University's School of Business is a net-zero design with geothermal HVAC. Southern's School of Business offers a wide range of undergraduate and master's degree programs in accounting, economics & finance, management, information systems, marketing, and MBA business administration. The new School of Business building houses general purpose classrooms, specialty classrooms, seminar rooms, a mock trading floor, faculty offices and larger event spaces, along with a common lobby, study spaces, and a computer lab.

SCSU strives to be among the most environmentally responsible universities in the United States as a charter signatory of the Climate Leadership Commitment for Higher Education. In partnership with Connecticut State Colleges and Universities (CSCU), SCSU generates more than 75% of campus electricity onsite, with 2.7 MW solar arrays and 2 MW fuel cells. SCSU purchases 100% green-e certified electricity for the remainder, fed by the grid. SCSU composts food scraps campus-wide and has a longstanding food recovery program donating surplus food to local soup kitchens. SCSU adopted pollinator friendly practices for all contracted landscaping services on campus in 2023.

The net-zero School of Business is a culmination of more than a decade of sustainability leadership. It is 100% electric, powered by a 635 KW canopy parking solar array at a nearby parking lot. There are five 30-ton ground source heat pumps (geothermal), with 51 wells for thermal transfer in a courtyard next to the main entrance. There are two 22,000 CFM air handling units (AHU's), and the building as a whole achieves an Energy Use Intensity (EUI) of 30. EUI refers to energy use per square foot of built space. The building has variable air volume HVAC and a dedicated outdoor air system (DOAC) that includes an enthalpy wheel for thermal recovery.

## Geothermal at Southern CT State University's School of Business:

### Pre-File Registration with the IRS

The filing process started by creating an IRS account and completing the required pre-file registration. Every project submitted for this Inflation Reduction Act tax credit must complete the pre-file process. If approved, the IRS provides a unique project registration number that is included in the credit submission. Required information and documentation includes project start and completion dates, location, equipment, design, and proof of ownership. Documentation of prevailing wages during construction and domestic content of equipment is needed for the highest percentage credits. Documentation and credit requirements should be incorporated early in the project planning process because they are extensive and can be difficult to complete after the fact. Pre-file approval by the IRS took several weeks for SCSU's project.

## Filing for the Credit

SCSU's credit submission was for the geothermal heating and cooling system at the net-zero School of Business. While solar arrays are also eligible for this type of credit, SCSU did not maintain ownership of the solar panels and instead, purchases their electricity through a power purchase agreement (PPA). The tax credit for geothermal is based on a percentage of the total cost of the geothermal heat pump equipment and the HVAC system that enables successful heating and cooling of the building via the geothermal pumps. To determine the cost of the HVAC portion of the geothermal system, the Southern team worked with contracted service providers to determine the total cost, which was upward of $7 million. Because Southern's project commenced prior to prevailing wage and domestic content requirements being finalized by the IRS, Southern was automatically eligible for a 30% base credit. Moving forward, prevailing wage and domestic content documentation are required to attain the highest percentage credits. For projects that do not document prevailing wage or domestic content, the base credit is 6%. Southern was eligible for an additional 10% bonus credit because the campus is located in a pre-determined "energy community," available on the IRA Energy Community Tax Credit Bonus mapping tool.[1] Since SCSU's geothermal system was funded with tax-exempt bonds by the state, there was a 15% reduction in the dollar value of the credit.

SCSU worked with Giraffe Financial Services on the filing process, which included completing the following forms: Form 990-T Exempt Organization Business Income Tax Return, Form 3800 General Business Credit and the project-specific Form 3468 Investment Credit. Giraffe Financial also managed the e-file process on behalf of the university before the November 15, 2024 deadline. The IRS informed SCSU that the credit was successfully processed in mid-March 2025, and payment totaling $2.7 million was awarded before the end of the month.