



Elective Pay and Transferability Frequently Asked Questions: Overview

The answers to the questions are based on proposed and temporary elective pay and transferability regulations and other tax guidance on IRS.gov. These proposed and temporary regulations and the answers may change when these regulations are finalized following a public comment period.

In general, Treasury and the IRS do not provide personalized tax advice regarding whether a specific organization's project or activity is eligible for a tax credit. For more information about clean energy tax credits, please see [Credits and Deductions Under the Inflation Reduction Act of 2022](#). You may also choose to consult with a tax advisor.

FAQ Topics

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Q1. What is an Elective Payment (also known as an "elective pay" and informally as "direct pay")? (added June 14, 2023)

A. Elective pay allows applicable entities (as defined), including tax-exempt and governmental entities that would otherwise be unable to claim these credits because they do not owe federal income tax, to benefit from some clean energy tax credits by treating the amount of the credit as a payment of tax and refunding any resulting overpayment.

For example, as a result of the Inflation Reduction Act, a local government that makes a clean energy investment that qualifies for the investment tax credit 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. See [Q15 on the Applicable Credits for Elective Pay](#) page for a list of applicable tax credits.

Q2. What is Credit Transfer (also known as "transferability") and who can use it? (added June 14, 2023)

A. Transferability allows a taxpayer who generates certain clean energy tax credits to elect to transfer (i.e., sell) all or a portion of a tax credit to an unrelated third-party transferee (i.e., buyer) in exchange for cash. In such transactions, the buyer and seller negotiate and agree to the terms and pricing. The transferor is sometimes referred to as the "seller" and the transferee is sometimes referred to as the "buyer". Applicable entities cannot use transferability; they can only use elective pay.

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