

The Virgin Islands Consortium

U.S. Virgin Islands Could Unlock Vast Renewable Resources with Direct Pay Incentives

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Last month, the Internal Revenue Service issued proposed regulations addressing the issue of direct pay under the Inflation Reduction Act of 2022. On Friday, Congresswoman Stacey Plaskett was joined by representatives of the IRS and the League of Conservation Voters to discuss what those regulations can mean for the transformation of the U.S. Virgin Islands' energy landscape.

The direct pay initiative, according to Ms. Plaskett, will enable tax-exempt and government entities to receive a payment equal to the value of tax credits for qualifying clean energy activities. "This means that the Virgin Islands government, its agencies, public utilities, or any of our tax-exempt nonprofit entities will be able, for example, to put

out solar and develop energy from it and get direct pay credits for the production of that energy," she explained.

David Linares, the local taxpayer advocate for U.S. territories from the IRS, provided detailed insights into the implementation of the Inflation Reduction Act provisions, recommending that people stay up-to-date by regularly checking the IRS website, where "guidance for all credits and deductions will be posted as soon as it becomes available."

Before, clean energy credits were only available as nonrefundable tax credits, used to offset any liability to the IRS. Because government agencies and tax-exempt organizations have no tax liabilities to the federal government, there was no value to them in those clean energy credits. Under the new guidelines, however, these credits are now treated as a direct payment to the IRS, and therefore can be refunded – in cash – to the entity. "Eligible entities such as the local government that qualify for a cleaner energy investment tax credit can notify the IRS of their intent to claim the credit and then file an annual tax return to claim the ... full value of the credit," Mr. Linares explained.

Again cautioning that those wishing to take advantage of the many credits created by the Inflation Reduction Act must fully apprise themselves of the specific requirements that must be met, Mr. Linares nevertheless encouraged eligible agencies to make use of the provisions. "These options that were created...can definitely help us in Puerto Rico and the USVI, these credits," he said.

Art Terrazas, government affairs advocate for the League of Conservation Voters (LCV), began by acknowledging the difficulty of addressing climate change, emphasizing the hard work and dedication that goes into drafting effective legislation. He commended the congresswoman, her staff, and her colleagues for their commitment to getting it right.

He went on to describe the increasing challenges faced by frontline communities such as the Virgin Islands, where climate change is resulting in more frequent and intense storms, heatwaves, and strains on electricity and water supplies. Terrazas described the new tax policy as a "game changer," allowing projects like creating solar farms, purchasing electric vehicles, and installing solar panels on affordable housing to become more feasible.

Terrazas noted that the added the "superpower" of direct pay can be combined with other grants and loans, effectively lowering the cost of clean energy projects. Terrazas highlighted the potential of direct pay to create resilient microgrids, clean and reliable transportation, and equitable benefits for historically underserved communities.

The enthusiasm for the new tax policies under the Inflation Reduction Act was palpable, with Delegate Plaskett describing the new law as "the most significant legislation in U.S. history to tackle the climate crisis and strengthen American energy security." With the IRS now directly incentivizing municipal and other tax-exempt entities to invest in clean energy initiatives, Mr. Terrazas believes that "we're breaking that cycle and going to clean, resilient systems that are going to again ensure the health and safety of our communities."