

## Direct Pay: what is it?

Providing a cash monetization avenue for energy tax credits

# Direct Pay

- **Direct Pay is a term of art that is associated with a proposal that originated from the House Ways and Means Committee in 2010 in the Domestic Manufacturing and Energy Jobs Act of 2010, which was introduced by former Congressman Sander Levin.**
- **The Direct Pay proposal was created in part as a reaction to the difficult politics that surrounded the Section 1603 Cash Grant program that was authorized in the American Recovery and Reinvestment Act (ARRA) in 2009.**
- **The basic mechanism of Direct Pay is that it allows a taxpayer to treat tax credits that it has earned as an overpayment of taxes, allowing the taxpayer to utilize the tax refund mechanism in the tax code to receive a direct payment of cash from the Treasury Department in lieu of monetizing the tax credit through another means.**

# CRS Study in 2011 on Tax Incentive Grants

- A 2011 Congressional Research Service study on the Section 1603 cash grant program concluded that:
- ***Compared to tax incentives, the Section 1603 grants, or grants generally, may be a more efficient subsidy. From the perspective of the federal government, the efficiency of a subsidy can be evaluated based on funding flowing toward the subsidized activity relative to federal revenue losses. Since many recipients of renewable energy tax incentives turn to tax-equity markets to monetize such credits at a discount, it may be more efficient for the government to provide grants directly rather than use the tax code as a vehicle for subsidization. Further, this would eliminate the need for tax-equity markets broadly, potentially leveling the playing field for smaller projects with less access to tax equity. See: <https://www.everycrsreport.com/reports/R41635.html>***

# Why is there a Need for Direct Pay?

- Tax Equity Partnership Constraints
- COVID 19 Economic Dislocations

# Are there alternatives to Direct Pay that may be effective?

- Enhanced Transferability
  - Blumenhauer/LaHood Bill on Renewable Tax Credit Transferability (May 2019)
  - Senator Michael Bennet bill S. 3032 “The Renewable Energy Transferability Act”

# Direct Pay Proposals in Congress

- The GREEN Act (House Ways and Means Democrats (November 2019))
- Congressman Blumenauer Direct Pay Bill HR 5157 (November 2019)
- Congressman Arrington/Chamber of Commerce Bill
- Advanced Energy Economy Proposal

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