

What's Changed with Clean Energy Tax Credits: A CLIMATE POLICY BRIEF FOR HIGHER EDUCATION



Note that this document contains general guidance based on currently available information and is not meant to be legal or tax advice. Always consult with legal counsel and tax specialists for your specific situation.

OVERVIEW

The U.S. Congress passed the One Big Beautiful Bill Act (OBBBA) on July 4th, 2025.¹ The massive reconciliation bill came after months of intense arguments and speculation that began well before the November 2024 general election, as outlined by party platform points highlighted in the Project 2025 Playbook.² Since the passage of the Congressional Budget Act of 1974, the reconciliation process has enabled Congress to enact tax, spending, and debt limit legislation with a simple majority vote. This overcomes Senate filibuster rules, and in recent years, it has been used to pass highly partisan legislation. These bills contain a wide range of provisions covering critical issue areas, such as healthcare, education, taxes, and energy. Previously, the Biden-Harris administration utilized the reconciliation process to pass the Inflation Reduction Act (IRA), passing the Senate with a party-line vote.

The IRA opened unprecedented doors for the acceleration of climate action nationwide, and higher education institutions were among the many sectors to take advantage of key tax credit provisions, grants, and other funding opportunities provided by the

legislation. A relatively novel approach called “direct pay” or “elective pay” allowed entities that didn’t have tax liability (e.g., non-profit higher education institutions) to receive tax payments for clean energy projects directly, and soon thereafter the number of renewable energy, electrification, and clean energy infrastructure projects taking advantage of direct pay provisions ballooned.³ After the 2024 presidential and congressional elections, however, it became clear that clean energy incentives found in the IRA would likely soon be halted. Following months of negotiations, the OBBBA significantly altered the IRA’s clean energy incentives, introducing confusion and complexity that relevant government agencies are continuing to review, as of the date of this publication.

In this document, we will highlight the pertinent changes in the new law, with a particular focus on the intersection of clean energy infrastructure and higher education, outline the implications for the sector, and provide a roadmap for continued climate solutions on higher education campuses.

1 <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

2 <https://www.project2025.observer/en>

3 <https://home.treasury.gov/news/press-releases/jy2190>

INTRODUCTION: THE FEDERAL GOVERNMENT ATTACKS THE IRA WITH THE OBBBA

(For a compact overview of the reconciliation process, view our [Federal Clean Energy Policy Explainer](#).)

The IRA was passed in August 2022 and allocated \$369 billion to promote clean energy investments, environmental justice, and climate-friendly solutions.⁴ Ultimately, the goal of the legislation was to cut U.S. greenhouse gas emissions by 40% below 2005 levels by 2030. As initially written, most of the credits were expected to run through 2032 or later, helping to stabilize the clean energy industry and attract ongoing investment in clean energy solutions. The direct pay component of the IRA helped non-profit institutions, which many higher education institutions are, to receive cash payments from the IRS instead of tax credits. This makes the incentives from the legislation accessible to a wide range of institutions that previously may not have possessed the tax liability, financial acumen, or staffing capacity to pursue these solutions.

Immediately following the November 2024 election, negotiations for the OBBBA were underway as Republican lawmakers sought to capitalize on the new federal powers they had gained. Speaker of the House, Rep. Mike Johnson, and Senate Majority Leader John Thune signaled that then-incoming President Trump wanted a single budget bill aimed at reducing government spending and perceived overreliance on social welfare and Democratic co-opted platform points (clean energy advancement falls under this category).⁵ House

Republicans, particularly those in the Freedom Caucus, expressed disdain for certain clean energy provisions of the IRA, a talking point that dominated the early reconciliation negotiations in April and May 2025.^{6,7} By the time the U.S. House Ways and Means Committee released its proposal on a plan to reduce federal spending, tax credits for clean vehicles and home efficiency were proposed to be eliminated, the Investment Tax Credits (ITC) and Production Tax Credits (PTC) were set to be phased out, and the direct pay provisions utilized by many eligible entities were effectively gutted. Other key funding sources for clean energy advancement, such as the EPA and DOE's Environmental Justice Block Grants and the Greenhouse Gas Reduction Fund (GGRF), were also targeted for elimination.

The House passed its version of the legislation by one singular vote, 215-214. The bill then proceeded to the Senate for the next step in the reconciliation process. Throughout June, key Republican Senators openly expressed that their version of the bill would not be as stringent as the House's, drawing both ire and hope from interested parties nationwide.⁸ By late June, the Senate Finance Committee released its version of the bill. While it shared many similarities with the House text, it diverged in key areas, indicating a potential lifeline for certain credits and clean energy solutions in the coming decade. While electric vehicle credits were to be eliminated by 2026, the runway for the phaseout of solar and wind credits was extended, and the credits for geothermal, hydropower, energy storage, and nuclear remained largely intact relative to the IRA.

4 <https://www.congress.gov/bill/117th-congress/house-bill/5376/text>

5 <https://www.npr.org/2024/11/19/nx-s1-5195379/president-elect-trump-promises-a-massive-overhaul-of-the-federal-government>

6 <https://www.eenews.net/articles/republican-fight-over-climate-may-be-reaching-a-boiling-point/>

7 <https://www.crfb.org/blogs/house-freedom-caucus-proposes-37-trillion-savings-debt-ceiling-vote>

8 <https://thehill.com/opinion/white-house/5329843-trump-spending-bill-controversy/>

DIRECT PAY AND LABOR STANDARDS

When direct pay was introduced, it brought a historic breakthrough for nonprofit and tax-exempt institutions, allowing many colleges and universities to receive cash reimbursements from the IRS for eligible clean energy credits. This enabled a widespread uptick in solar, geothermal, and storage projects without needing complicated financing structures or tax equity deals. However, under OBBBA, direct pay was drastically scaled back through the rolling back of key credits.

CHANGES IN KEY CREDITS AND LANGUAGE

Wind and Solar ITC and PTC

To receive the pertinent tax credits for wind and solar ITC and PTC (Sections 48E and 45Y), projects must be **placed in service by the end of 2027** unless the project begins construction within 12 months from July 4th, 2025. As the Treasury continues to update its guidance, this may impact the current deadlines for completing construction. Additionally, Foreign Entities of Concern (FEOC) restrictions stemming from materials and ownership ties to China, Iran, Russia, and North Korea will impact credit eligibility for specific project types such as EV and battery manufacturing credits, energy storage systems, and wind and solar projects. The OBBBA also uses “Prohibited Foreign Entity” (PFE) restrictions, but this document won’t cover all the detailed differences in this document and will use FEOC as the umbrella term as explained more below. Tax credit bonuses such as domestic content, prevailing wage and apprenticeship, energy communities, and low-income communities still apply.

Credits Bonuses

The IRA offered a base rate for the clean energy tax credits that could be multiplied up to five times (up to 30%) if projects met key bonus criteria (prevailing wage and apprenticeship requirements). These bonuses focused on advancing labor equity, domestic manufacturing, and justice. For the higher education sector, bonus eligibility could make the difference between marginal and compelling project financial returns.

1. Prevailing Wage and Apprenticeship (PWA) Requirements

Qualifying projects could increase their credit value dramatically by meeting prevailing wage and apprenticeship thresholds, a key tool for both equity and workforce development. If these requirements are met, the 6% base credit is amplified to a 30% credit and unlocks the potential for further bonus credits for a project. *This is the ticket to stack further bonuses.*

- Prevailing Wage: All laborers and mechanics working on a project must be paid a rate that is at least equal to the prevailing wage in that geographic area.
- Apprenticeship: At least 15% of all hours of construction, alteration, or repair on a project must be worked on by apprentices from certified programs.
- These requirements are waived if fewer than four people are employed to perform construction, alteration, or repair on the property or the certified apprenticeship program has no apprentices available.

2. Energy Communities

Projects sited in energy-impacted zones such as brownfields, former fossil communities, or closed coal facilities can earn an extra 10% bonus. However, OBBBA narrowed the definitions for eligible communities, meaning fewer geographies and institutions are now eligible for this bonus.

3. Low-Income Community Bonus

Up to a 20% bonus was available for small-scale solar/wind in low-income areas or affordable housing units, a key leveraging point for potential campus-community initiatives.

4. Domestic Content Bonus

To qualify for this bonus, all iron and steel must be produced in the U.S. and serve a structural purpose. Furthermore, for manufactured products, 40% of the total cost for manufactured products must be produced in the U.S., which will increase to 55% within three years. This is waived if the inclusion of domestic content

increases overall construction costs by 25%, or if the products needed are not produced in the U.S. to a sufficient standard.

Commenced Construction, Placed in Service, and Safe Harbor

Federal clean energy tax credits are not only tied to project type and eligibility criteria, but precise timing definitions as well. The IRA outlined three distinct concepts (commenced construction, placed in service, and safe harbor) that are critical to determining a project's qualifications and compliance, which are defined below.

Commenced construction refers to the point at which physical work on a qualifying project has begun. Under OBBBA, the commenced construction definition remains intact, but the runway to have a project placed in service is significantly shortened. Per IRS guidance, there are two ways to meet this requirement:

- 1. Physical Work Test:** Beginning physical work of a significant nature, such as on-site or off-site manufacturing of custom components for the specified project.
- 2. 5% Safe Harbor:** Paying or incurring at least 5% of the total project costs, with continuous progress toward completion. However, most firms would suggest that entities seeking to take advantage of IRA tax credits should spend closer to 7-10% of a project's cost to be on the safe side.

"Placed in service" means that the project is ready for its intended use, even if minor work remains. With tighter procurement windows and more constrained supply chains, universities must manage construction schedules aggressively to avoid losing eligibility. Most impacted are wind and solar technologies, which now need to be placed in service by December 31st, 2027.

Commercial Electric Vehicle Credits

The credit for commercial electric vehicles, Section 45W, is terminated for any commercial electric vehicle purchased and received by the owning entity after September 30th, 2025. Any vehicles placed in service after this date will not be eligible for the credit. The Clean Energy Vehicle Charging Infrastructure Credit, Section 30C, will be terminated after June 30, 2026. No safe harbor provision applies for this credit.

Energy Storage and Geothermal Credits

Despite the changes in Section 48E to wind and solar, other technologies such as battery storage, geothermal, hydropower, and nuclear were not subjected to any major credit rollbacks. However, after December 31st, 2025, FEOC material assistance restrictions will apply to these projects. These projects must begin construction by 2033 to be eligible for the full tech-neutral tax credit, or by 2035 to receive a reduced credit. Similarly, the tax credit for ground-source heat pumps (Section 48) will be available through 2034.

FEOC

Stricter FEOC definitions have limited the supply chain for solar, EV, and storage components, with very little transition assistance. This has already led to procurement delays and increased project costs, with analysis indicating that the passage of this legislation will increase total industrial energy expenditures by as much as \$11 billion by 2035.⁹ The rules fall into three categories:

- 1. Entity-level rules:** Tax credit eligibility may be at risk if the taxpayer is a specified foreign entity or a foreign-influenced entity. The foreign-influenced entity rules apply to projects under the 45Y, 48E, 45X, 45Q, 45U, and 45Z projects. The specified foreign entity rules will apply if a foreign-controlled entity owns more than 50% of the taxpayer.

9 <https://rhg.com/research/assessing-the-impacts-of-the-final-one-big-beautiful-bill/>

2. Payment rules: Taxpayers and previously eligible entities can lose eligibility for the 45Y, 48E, or 45X tax credits (or repay 48E credits claimed up to a decade prior) if they make payments that are deemed to confer “effective control” to a specified foreign entity.

3. Materials assistance: Taxpayers must determine if the manufactured products comprising their facilities, specifically for 45Y and 48E projects, or the inputs into the components produced, specifically for 45X projects, derive excessively from an FEOC.

Direct Pay

While the actual provision of direct pay remains, many of the eligible tax credits that entities rely on to receive cash payments have undergone significant revisions. The new FEOC requirements are set to take effect beginning in 2026, particularly for storage and solar credits. Institutions will need to evaluate financing models, potentially relying again on third-party developers or Power Purchase Agreements (PPAs). The shift in implementation will most impact the Section 48 (ITC) and Section 45 (PTC) projects. While technologies received exceptions, such as geothermal, biofuels, and nuclear energy, some of them are significantly more challenging to implement at scale on campuses.

Grant Funding Reductions

Several key grant programs were defunded or absorbed into block grants with increased discretionary oversight, a decision that undermines commitments to environmental justice, resilience, and community collaboration. The EPA’s \$27 billion Greenhouse Gas Reduction Fund (GGRF) has been dissolved, alongside reductions in the DOE’s Environmental Justice and Resilience Grants.

IMPLICATIONS FOR HIGHER EDUCATION

1. INCREASED FINANCIAL AND LEGAL RISK

- Direct pay and stable ITC/credit rates are now facing more uncertainty
- Smaller institutions may struggle to maintain solar, storage, and EV infrastructure projects
- ROI calculations, bond plans, and public-private partnerships must be re-evaluated
- Unclear or shifting IRS guidance can increase the chances of audit risk, credit recapture, or reputational harm

2. PLANNING CYCLE MISMATCHES

- Misalignment between the new federal guidance now extends to:
 - Academic calendars
 - Construction windows
 - Strategic planning timelines
 - Board-level approvals and state deadlines
- Existing projects may no longer meet compliance under revised standards

3. EQUITY PROJECTS DISPROPORTIONATELY AFFECTED

- HBCUs, Tribal colleges, MSIs, community colleges, and rural-serving institutions face heightened barriers
- Environmental justice-centered community collaborations are jeopardized due to the rollback of federal support
- Many institutions lack legal expertise, policy interpretation skills, and the technical capacity to navigate FEOC rules or financing options

4. PUBLIC-PRIVATE PARTNERSHIPS NEED RESTRUCTURING

- Return to traditional PPAs with potentially worse terms and reduced institutional control
- Existing risk-sharing structures may require renegotiation

RECOMMENDATIONS FOR CAMPUS LEADERS

1. PRIORITIZE CROSS-DEPARTMENTAL ALIGNMENT

- Convene sustainability, legal, finance, facilities, and government affairs teams
- Establish IRA transition teams for continuous monitoring and response

2. CONDUCT CLEAN ENERGY RISK AUDITS*

- Inventory all IRA-related projects (procurement, construction, planning, etc.)
- Assess exposure based on credit eligibility, vendor compliance, and labor rules
- Adjust timelines or renegotiate contracts where feasible
- Communicate transparently with internal and external stakeholders

3. ENGAGE IN FEDERAL POLICY FEEDBACK LOOPS

- Submit public comments
- Join coalitions and coordinated sessions
- Share insights with agencies developing new implementation guidance

4. EXPLORE SHARED SERVICE MODELS

- Partner with peer institutions for legal, technical, and financial support
- Pool resources and look for ways to access economies of scale
- Work with green banks or state energy offices to tap bridge funding and technical assistance

5. CONTINUE ADVANCING MISSION-ALIGNED PROJECTS

- Focus on building electrification, demand-side efficiency, resilience hubs, and low-carbon procurement
- Embrace flexible, justice-centered strategies even amid limited federal support

*Example of a Clean Energy Risk Audit

Project	Credit(s)	Status	Key Risks	Next Action
Solar Array (Science Building)	Sec 48, Domestic Content Bonus	Procurement	FEOC compliance unclear, PWA logs incomplete	Hold pending vendor verification
EV Fleet Phase I	Sec 45W	Pre-order	Credit sunset 2026: vendor shift may be needed	Accelerate purchase before Q3 2026
Geothermal Loop (Library)	Sec 48	Construction	Minimal policy exposure, domestic content met	Go

CONCLUSION



Climate leadership is not just measured by megawatts installed or tax credits claimed, so the passage of the OBBBA does not signal the end of climate leadership in higher education. It may, however, mark the beginning of a more complex and, in some ways, more consequential era. With federal incentives now fragmented and uncertain, institutions must lead not by following policy cues, but by setting the pace for what is still possible. This will require new coalitions, revised business models, and a willingness to pursue impact even when the pathway is less clear. In this constrained environment, the moral imperative for climate action remains unchanged, as does the potential for colleges and universities to serve as laboratories of democracy, equity, and sustainability. Their leadership is more critical now than ever. While the rules have shifted, the stakes remain the same. Institutions that remain agile, grounded in their values, and willing to take calculated risks will continue to shape the future of clean energy in the higher education sector. 🍷

FURTHER READINGS AND RESOURCES UTILIZED



[Second Nature Washington Explainer \(May to July 2025\)](#)

[NYU Tax Law Center: Navigating OBBBA](#)

[Lawyers for Good Government: Updates to Certain Elective Pay Eligible Credits](#)

[Third Way: Overview of Major U.S. Clean Energy Tax Policy](#)

[UndauntedK12: Budget Reconciliation and Energy Tax Credits](#)