

# How to Fund a Green Project

A playbook for locally owned, small businesses.

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## Who is Local First Arizona?

[Local First Arizona](#) is a nonprofit organization committed to community and economic development throughout Arizona. We are also the nation's largest coalition of locally owned businesses.

**Our mission is to** build equitable systems for Arizona's local businesses and communities that create a vibrant, inclusive, and sustainable Arizona economy by strengthening, supporting, and celebrating entrepreneurship, rural and urban community development, racial equity, environmental action, and food access.

**Local First Arizona does this by . . .**

- Training small businesses to be more resilient
- Creating programs and events that make it fun and easy to buy local
- Providing access to funding, such as microloans, to small business owners
- Targeting systems of inequity and building prosperity for all Arizonans by proactively identifying comprehensive solutions and taking action

**To make strides towards a more sustainable economy, Local First Arizona's Sustainability Department focuses on:**

- Promoting and marketing the sustainability efforts of businesses and providing technical assistance to business owners through our [Arizona Green Business Certification Program](#)
- Educating business owners and creating an action plan for reducing water, waste, energy, or transportation costs by at least 20% through our [Green Business Boot Camp](#)
- Providing unique access to funding opportunities through a [Green Community Fund and a Green Loan Fund](#)
- Providing resources like this guidebook to make sustainability more accessible, affordable, and understandable

## **The Arizona Economic Recovery Center**

An additional resource available is the [Arizona Economic Recovery Center](#), offered through Local First Arizona. The Arizona Economic Recovery Center provides free, additional support to eligible rural counties, cities, towns, tribes, and nonprofits. Available services include:

- Support with readiness to pursue competitive grants
- Grant opportunity research
- Grant writing, reviewing, editing
- Project budget guidance and development
- Consulting and facilitation related to implementing funded projects
- Grant reporting and compliance support

To sign up for the weekly newsletter with up-to-date information on current grant opportunities or for a free consultation, please visit:

<https://localfirstaz.com/economic-recovery-center>

# Access to Low-Interest Green Lending Projects

If you are looking for low-interest financing to help you pay for your sustainability projects - like fixing leaky water pipes, lowering your building's energy use, or switching to desert adapted landscaping or LED lighting, please consider Local First Arizona's green lending products. If your business is based in Maricopa or Yavapai Counties, please check out Local First's and Growth Partners Arizona's [Green Loan Fund](#). If your business is located in Pima County, please check out the [Green Community Fund](#) offered in partnership with the Community Investment Corporation of Tucson.

## How to Use this Guidebook

This guidebook provides information about tax credits, tax deductions, grants, rebates, and resources that are available to you as a small business owner and can help you fund future sustainability projects. Before embarking on your project, it is important you speak with your tax advisor (you can use this guide book as a reference) to understand exactly what you qualify for. This book does not provide any tax advice. Some examples of sustainability projects that can be partially or fully funded include:

- Renewable energy projects
- Clean vehicle charging stations
- Water and energy upgrades
- Implementing conservation practices
- Technical assistance and strategic planning

Local First Arizona has compiled this guidebook as a resource for you to save time, money, and resources and pursue the projects that you are most excited about implementing in your business.

# Introduction to the Inflation Reduction Act for Locally Owned Businesses

Passed and signed into law in 2022, the Inflation Reduction Act (IRA) is the most important investment in clean energy in our nation's history. It includes more than 20 new or modified tax incentives and tens of billions of dollars in grant and loan programs to implement and invest in renewable technology and supercharge our transition to a clean energy economy.

These investments are designed to unlock truly transformative change that not only builds a low-carbon energy system with American-made technology, but also delivers lower energy costs and good-paying jobs for small businesses, particularly in communities that are underserved, low-income, or overburdened by pollution.

## Key IRA Terms and Definitions

To understand how the new tax incentives can benefit you and your business, it's important to understand the following terms.

- [Apprenticeship](#): Apprenticeships combine paid on-the-job training with classroom instruction to prepare workers for highly-skilled careers. Workers benefit from apprenticeships by receiving a skills-based education that prepares them for good-paying jobs. Apprenticeship programs help employers recruit, build, and retain a highly-skilled workforce<sup>1</sup>.
- [Elective Pay/Direct Pay](#): This process allows entities exempt from income tax—such as nonprofits, state/local/Tribal governments, publicly owned utilities, and rural electric cooperatives—to claim the equivalent amount of tax credit in the form of a direct payment from the IRS. This enables

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<sup>1</sup> US Department of Labor, Apprenticeships: <https://www.dol.gov/general/topic/training/apprenticeship>

tax-exempt entities to take advantage of renewable energy credits such as the [Investment Tax Credit \(ITC\)](#) for the first time<sup>2</sup>.

- Certain tax credits, including the Investment Tax Credit and the Production Tax Credit, are eligible for Direct Pay; here is a full [list of tax credits](#) that have direct pay options:
- If you are interested in using Direct Pay for a project, you can find more information [here](#).
- **Transferability:** This process allows for-profit project owners to monetize certain tax credits by transferring them to other taxpayers. Essentially, this enables renewable project owners and developers to sell tax credits for cash and simplifies financing for clean energy projects<sup>3</sup>. This is especially useful if your tax credit is worth more than what you will owe on that tax year. Now, you can sell your credit to another business. Markets for these transferable tax credits are still being set up based on emerging IRS guidance, and tax credit transfers/sales may not be immediately available.
- **Prevailing Wage:** The prevailing wage rate is defined as the average wage paid to similarly employed workers in a specific occupation in the area of intended employment<sup>4</sup>. Because it is the 'average' wage, it is higher than starting wages for a given job category.
- **Rebate:** A determined amount of money that can be refunded for specific energy or water projects/equipment from a utility, municipality, or the state. When pertaining to taxes or billing, it can also mean a partial refund to someone who has paid too much money in taxes, rent, or toward a utility bill.
- **Stackability:** This means that specific tax incentives / funding opportunities can be combined in the same project to increase its return on investment. For example, rural business owners can utilize **both** the Investment Tax Credit and the REAP Grant to cover up to 80% of the same solar/renewable energy project. All tax credits included in this guidebook

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<sup>2</sup> CAP 20, Understanding Direct Pay and Transferability for Tax Credits in the Inflation Reduction Act: <https://www.americanprogress.org/article/understanding-direct-pay-and-transferability-for-tax-credits-in-the-inflation-reduction-act/>

<sup>3</sup> CAP 20, Ibid

<sup>4</sup> Department of Labor, Prevailing Wage Information and Resources: <https://www.dol.gov/agencies/eta/foreign-labor/wages>

can be utilized/stacked by the same business. Visit [this site](#) for a complete list of what IRA tax credits cannot be stacked.

- [Tax Credit](#): An amount of money that can offset a tax liability, essentially reducing the amount of money owed to the IRS.
- [Tax Deduction](#): A tax deduction is a provision that reduces the amount of income/revenue being taxed.
- [Tax Liability](#): The payment owed by an individual, business, or other entity to a federal, state, or local tax authority.

Note: Beginning in the taxable year 2023, a tax credit can only be transferred once. Such a transfer must be made in cash, and any gain is not included in the seller's gross income or deducted by the buyer.

## Clean Energy Tax Incentives

Tackling the climate crisis requires a rapid and deep transition in America's energy system to cleaner sources, starting with the electric power sector. The following tax credits can help make a small business owner's transition to renewable energy (like solar) more financially affordable.

All the following information is from the White House's Inflation Reduction Act Guidebook. You can link to the full document [here](#).

### Clean Energy Production and Investment Tax Credits

If you're a business looking to implement solar or other renewable energy,<sup>5</sup> you may be eligible for this tax credit. To be eligible for the credit, businesses must pay business tax; home businesses or other pass-through LLC structures that are taxed as personal income are not eligible for commercial tax credits. Speak to your tax advisor to confirm eligibility.<sup>6</sup>

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<sup>5</sup> Eligible technologies include solar, small wind, geothermal heat pumps, and fuel cells, among others. It does not include air source heat pumps (ASHP) or insulation.

<sup>6</sup> Individual taxpayers may instead be eligible for other tax credits under the *Energy efficient home improvement credit* (§25C; *heat pumps and insulation/weatherization*) or the *Residential clean energy credit* (§25D; *solar, small wind, geothermal, etc.*)

### Eligibility:

- Solar or other renewable systems that are placed in service in 2022 or later and begin construction before 2033 are eligible for a 30% Investment Tax Credit (ITC).
- For larger systems, you may be able to benefit from a 2.75 ¢/kWh Production Tax Credit (PTC) if they meet labor requirements issued by the Treasury Department or are under 1 megawatt (MW) in size.

### Bonus Credits:

- A project or facility can receive the full 30% credit amount if it meets Davis-Bacon prevailing wage and registered apprenticeship requirements. Projects under 1 megawatt are exempt from this requirement.<sup>7</sup>
- An additional 10% bonus credit is available for projects located in Energy Communities; see the map of eligible locations [here](#).
- An additional 10% bonus credit is available for projects meeting certain domestic content requirements for steel (100% domestic) and manufactured products (40% domestic content threshold, increasing over time).
- The ITC offers additional bonuses for wind and solar projects in low-income communities or on Tribal lands.

### Types of Tax Credits for Renewable Energy Generation:

- The investment tax credit (ITC) is a tax credit that reduces the federal income tax liability for a percentage of the cost of a solar or renewable energy system that is installed during the tax year.
- The production tax credit (PTC) is a per kilowatt-hour (kWh) tax credit for electricity generated by solar and other qualifying technologies for the first 10 years of a system's operation. It reduces the federal income tax liability and is adjusted annually for inflation.

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<sup>7</sup> Projects must meet prevailing wage and apprenticeship requirements, or be under 1 MW in capacity, to receive the full 30% base credit and the 10% bonus credits for domestic content and energy communities; projects failing to meet these criteria are eligible for a base credit of 6% and bonus credits of 2%. See the table on the following page for details.



## Summary of Investment Tax Credit (ITC) and Production Tax Credit (PTC) Values Over Time

			Start of Construction						
			2006 to 2019	2020 to 2021	2022	2023 to 2033	The later of 2034 (or two years after applicable year <sup>a</sup> )	The later of 2035 (or three years after applicable year <sup>a</sup> )	The later of 2036 (or four years after applicable year <sup>a</sup> )
ITC	Full rate (if project meets labor requirements <sup>b</sup> )	Base Credit	30%	26%	30%	30%	22.5%	15%	0%
		Domestic Content Bonus				10%	7.5%	5%	0%
		Energy Community Bonus				10%	7.5%	5%	0%
	Base rate (if project does not meet labor requirements <sup>b</sup> )	Base Credit	30%	26%	6%	6%	4.5%	3%	0%
		Domestic Content Bonus				2%	1.5%	1%	0%
		Energy Community Bonus				2%	1.5%	1%	0%
	Low-income bonus (1.8 GW/yr cap)	<5 MW projects in LMI communities or Indian land				10%	10%	10%	10%
		Qualified low-income residential building project / Qualified low-income economic benefit project				20%	20%	20%	20%
	PTC for 10 years (\$2022)	Full rate (if project meets labor requirements <sup>b</sup> )	Base Credit			2.75 ¢	2.75 ¢	2.0 ¢	1.3 ¢
Domestic Content Bonus						0.3 ¢	0.2 ¢	0.1 ¢	0.0 ¢
Energy Community Bonus						0.3 ¢	0.2 ¢	0.1 ¢	0.0 ¢
Base rate (if project does not meet labor requirements <sup>b</sup> )		Base Credit			0.55 ¢	0.55 ¢	0.4 ¢	0.3 ¢	0.0 ¢
		Domestic Content Bonus				0.1 ¢	0.0 ¢	0.0 ¢	0.0 ¢
		Energy Community Bonus				0.1 ¢	0.0 ¢	0.1 ¢	0.0 ¢

a "Applicable year" is defined as the later of (i) 2032 or (ii) the year the Treasury Secretary determines that there has been a 25% or more reduction in annual greenhouse gas emissions from the production of electricity in the United States as compared to the calendar year 2022.

b "Labor requirements" entail certain prevailing wage and apprenticeship conditions being met.

\*\*\*IMPORTANT: To qualify for the full tax credit, the project must meet labor requirements, including [prevailing wage](#) and [apprenticeship requirements](#) if it is above 1 megawatt in capacity.\*\*\*

## Clean Vehicle Tax Credits

The transportation sector is the largest source of greenhouse gas emissions in the United States, accounting for 27 percent of all emissions in 2020. Also, transportation is a major source of smog-forming nitrogen oxides and particulate



matter, which can trigger asthma attacks and other health problems for the most vulnerable among us (4).

## **Commercial Clean Vehicles Credit**

If you're a business looking for electric or hybrid vehicles to power your fleet, this tax credit may be useful for you.

### Eligibility:

- Will defray up to 30 percent of the cost of replacing diesel- or gas-powered commercial vehicles—ranging from cars and pick-up trucks to long-haul trucks—with electric vehicles.
- A commercial vehicle owner choosing to replace an existing vehicle with a cleaner but not fully electric alternative is eligible for a credit of up to 15 percent.

### Credit Amount:

The amount of the credit is the lesser of the two:

- 15% of the vehicle's basis (i.e. its cost to the purchaser) or 30% for vehicles without internal combustion engines.

OR

- The amount the purchase price exceeds the price of a comparable internal combustion vehicle.

The credit is capped at \$7,500 for vehicles < 14,000 lbs and \$40,000 for all other clean vehicles.

## **Alternative Fuel Infrastructure Tax Credit**

If you're a business looking to install EV charging stations, you may be eligible for this tax credit.

### Eligibility:

- Beginning January 1, 2023, fueling equipment for natural gas, propane, hydrogen, electricity, E85, or diesel fuel blends containing a minimum of

20% biodiesel, are eligible for a tax credit of 30% of the cost OR 6% in the case of property subject to depreciation, not to exceed \$100,000.

- Projects that also meet prevailing wage and apprenticeship requirements may be eligible to receive the full 30% tax credit, regardless of depreciation status.
- Note: Permitting and inspection fees are not included in covered expenses.

#### Additional Location Criteria:

- Qualified fueling equipment must be installed in locations that meet the following census tract requirements:
  - The census tract is not an urban area;
  - A population census tract where the poverty rate is at least 20% OR a metropolitan and non-metropolitan area census tract where the median family income is less than 80% of the state median family income level.

#### For Residential Fueling Equipment:

- Consumers who purchase qualified residential fueling equipment between January 1, 2023, and December 31, 2032, may receive a tax credit of up to \$1,000.

# Supporting Investment in Energy-Efficient and Low-Carbon Buildings

Although they do not have smokestacks, buildings—including their construction, their powering and heating/cooling, and the manufacturing of building materials—are a large source of greenhouse gas emissions in the United States.

# The Energy Efficient Commercial Buildings Deduction (Section 179D)

If you're a business looking to increase the energy efficiency of your building, you may be eligible for this tax credit.

## What it Is:

- Provides a tax deduction for energy efficiency improvements to commercial buildings, such as improvements to interior lighting; heating, cooling, ventilation, and hot water; and building envelope.

## Building Eligibility:

- Buildings that increase their energy efficiency by at least 25 percent will be able to claim this tax deduction, with bonuses for higher efficiency improvements.

## Recipient Eligibility

- Must be owners and long-term lessees of commercial buildings and/or designers of energy efficient building properties (such as architects and engineers)

OR

- Tax-exempt owners of commercial properties, pending Treasury guidance on deduction allocation.

## Base Credit Amount:

- \$0.50-\$1 per square foot, depending on increase in efficiency, with deduction over four year periods capped at \$1 per square foot. Inflation adjusted.
- Alternatively, taxpayers can deduct adjusted basis in "qualified retrofit plans" that reduce a building's energy use intensity by at least 25%.

## Bonus Deductions:

- The claimant can earn **5 times the base credit amount (\$2.50-\$5 per square foot)** if the project meets prevailing wage and registered apprenticeship requirements.

# Grants & Other IRA Funding Opportunities for Rural Businesses and Agricultural Producers

## Rural Energy for America Program (REAP)

If you're an agricultural producer or a small business owner in a rural area interested in implementing renewable energy or energy efficiency improvements, you may be eligible for this program.

### What it is:

- REAP provides grant funding and guaranteed loan financing to agricultural producers and rural small businesses for renewable energy systems or energy efficiency improvements.
- The Inflation Reduction Act sets aside a portion of this funding for underutilized renewable energy technologies.

### Types of Funding Available:

- **Grants for up to 50 percent** of total eligible project costs
- **Loan guarantees on loans up to 75 percent** of total eligible project costs
- Combined grant and loan guarantee funding up to 75 percent of total eligible project costs

### Eligible Recipients:

- **Agricultural producers** with at least 50 percent of their gross income coming from agricultural operations (agricultural producers may also apply for new energy efficient equipment and new system loans for agricultural production and processing)
- **Small businesses in eligible rural areas:** Check to see if your business meets the United States Department of Agriculture's definition of a [rural](#)

[business here](#). Check to see if your business meets the ‘small business’ guidelines of the [Small Business Administration here](#).

#### Eligible Uses:

- Funds may be used for renewable energy systems, such as biomass (e.g., biodiesel and ethanol, anaerobic digesters, solid fuels); geothermal for electric generation or direct use; hydropower below 30 MW; hydrogen; small and large wind generation; small and large solar generation; ocean (tidal, current, thermal) generation; and battery storage.
- Funds may also be used for the purchase, installation and construction of energy efficiency improvements, such as high efficiency heating, ventilation and air conditioning systems (HVAC); insulation; lighting; cooling or refrigeration units; doors and windows; electric, solar or gravity pumps for sprinkler pivots; switching from a diesel to electric irrigation motor; replacement of energy-inefficient equipment.

## Resources for Agricultural Producers

The Inflation Reduction Act provides billions of dollars to the USDA to invest in rural America, partner with the agricultural sector to support sustainable and resilient food systems, and respond to the climate challenge. Highlights include:

- **\$8.45 billion for the [Environmental Quality Incentives Program](#)**, which will provide technical and financial assistance to producers to address natural resource concerns and deliver environmental benefits, such as improving soil carbon, sequestering carbon dioxide, and promoting resilient landscapes.
- **\$4.95 billion for the [Regional Conservation Partnership Program](#)**, which will support partner-driven conservation projects that help agricultural producers and nonindustrial private forestland owners improve soil carbon, sequester carbon dioxide, or otherwise reduce emissions.
- **\$3.25 billion for the [Conservation Stewardship Program](#)**, which will offer technical and financial assistance to compensate agricultural and forest producers who adopt conservation practices.
- **\$3.1 billion to provide [relief to distressed farm loan borrowers](#)**, many of whom have been hard hit by market disruptions during the COVID-19 pandemic or natural disasters fueled by climate change. This assistance will help keep farmers on their land so they can produce the food, fiber,

and fuel the country needs. On October 18, 2022, USDA provided nearly \$800 million in assistance to distressed borrowers to cure delinquent accounts and resolve loan debts for borrowers in foreclosure.

## Other State and Local Incentives

Please [use this link to see our rolling list](#) of electric, gas, and water rebates across the state (please note it is not comprehensive - if you see a resource that is missing, please contact [sustainability@localfirstaz.com](mailto:sustainability@localfirstaz.com))

## General Utility Rebates

### ● Tucson Electric Power (TEP)

- TEP offers rebates for updates to lighting, HVAC systems, refrigeration, and controls.
  - To see what rebates you qualify for, TEP offers a [free rebate assessment](#).
  - You can also see what the [program process](#) for taking advantage of TEP rebates looks like.

### ● Arizona Public Service (APS)

- APS offers a variety of [resources for businesses](#) including:
  - [Free energy assessments](#) to help you identify energy-saving and rebate opportunities.
  - [Personalized solutions](#) for energy savings and rebate opportunities.
  - A [list of rebates](#) that you may be eligible for to save money on future projects.

### ● Salt River Project (SRP)

- SRP offers up to \$450,000 in rebates to commercial customers.
  - For a full list of commercial rebates, click [here](#).



- SRP also has [rebates designated for small businesses](#) that can make smart thermostats, lighting upgrades, and HVAC maintenance more affordable.
- You can also request a [free energy assessment](#) to determine what upgrades make the most sense for you.

## Municipal Water Provider Rebates

- You can check with your municipal water provider for additional rebates on high efficiency toilets, showerheads, rainwater harvesting tanks, faucet aerators, xeriscaping, etc.
- Some municipal water providers also conduct free water audits so that you can determine what rebates will be most helpful for you and your business.
- First, start by going to your municipal water provider's website. Any rebate opportunities for businesses will usually be listed under a 'commercial' or 'water' section.
- Next, fill out any applications needed. These usually take a few minutes and will help you prioritize which rebates will be most useful for you.

## Opportunities to create new water rebate programs across Arizona

If your local water provider / municipality does not have water rebates for businesses, work with them to research the Water Infrastructure Funding Authority's [Water Conservation](#) and [Water Project Assistance](#) Grants to support businesses and small communities in reducing their water use!

### Other IRA resources:

- The White House's Inflation Reduction Act Guidebook:  
<https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/>
- National Public Radio, [A year in, landmark U.S. climate law is driving energy transition but hurdles remain](#), Aug. 16, 2023
- The Bluegreen Alliance: A User Guide to the Inflation Reduction Act:  
<https://www.bluegreenalliance.org/site/a-user-guide-to-the-inflation-reduction-act/>