

Stacking Federal Programs to Increase Clean School Bus Affordability

Disclaimer

This document provides a summary of the Commercial Clean Vehicle Credit created by the Inflation Reduction Act and details how this credit could be leveraged in conjunction with the Clean School Bus Program and Elective Pay to increase the affordability of zero-emission school buses for both businesses and tax-exempt organizations. **This summary should not be taken as a replacement for guidance provided by a professional tax advisor, a tax attorney, and/or the tax credit guidance published by the Internal Revenue Service (IRS).**

Table 1: Major Federal Credits/Programs to Increase Clean School Bus Affordability

Credit/Program	Description
Commercial Clean Vehicle Credit	Tax credit available to businesses and tax-exempt organizations that purchase a qualified commercial clean vehicle
Clean School Bus Program	Provides funding to replace existing school buses with zero-emission and low-emission models
Elective Pay Program	Allows tax-exempt entities to receive a cash rebate from the IRS for eligible clean energy investments

Commercial Clean Vehicle Credit

The Commercial Clean Vehicle Credit is a tax credit available to businesses and tax-exempt organizations that purchase a qualified commercial clean vehicle. A qualified commercial clean vehicle includes (1) a vehicle that is treated as a [motor vehicle for purposes of title II of the Clean Air Act](#) and is manufactured primarily for use on public streets, roads, and highways, not including a vehicle operated exclusively on a rail or rails or (2) mobile machinery as defined in § 4053(8).¹ To qualify, a vehicle must be subject to a depreciation allowance, with an exception for vehicles placed in service by a tax-exempt organization, and not subject to a lease. The vehicle must also meet all [qualification requirements](#), set by the IRS.²

The credit equals the lesser of 15% of an eligible entity’s investment in the vehicle, 30% if the vehicle is not powered by gas or diesel, or the incremental cost³ of the vehicle. The credit is limited to \$40,000 for all class 4 vehicles and above, i.e., vehicles with a gross vehicle weight of more than 14,000 pounds, which includes school buses. There is no limit on the number of credits an applicant can claim; however, for businesses, the credits are nonrefundable, so a business could not receive more in credits than owed in taxes. For tax-exempt entities, if the credit being applied for exceeds the cost of the investment, then the amount of the credit is reduced so that the sum of the credit and any tax-exempt amount equals the full cost of investment.⁴ Scenarios detailed below illustrate this type of adjustment. Applicants may claim a commercial clean vehicle credit for the same taxable year that it places that vehicle into service.

¹ [Section 45W Commercial Clean Vehicles and Incremental Cost for 2023 \(irs.gov\)](#)

² See IRS’s [index](#) of qualified manufacturers. Blue Bird and Thomas Built Buses are qualified manufacturers.

³ The incremental cost of a qualified commercial clean vehicle is the excess of the purchase price of such vehicle over the price of a comparable vehicle. A comparable vehicle is any vehicle that is powered solely by a gasoline or diesel internal combustion engine and is comparable in size and use to such qualified commercial clean vehicle.

⁴ <https://www.irs.gov/credits-deductions/elective-pay-and-transferability-frequently-asked-questions-elective-pay>

Clean School Bus Program

The [Clean School Bus Program](#) is a program funded by the Environmental Protection Agency (EPA) that provides funding to replace existing school buses with zero-emission and low-emission models. Tax-paying applicants of the Clean School Bus Program could potentially take advantage of both the Commercial Clean Vehicle Credit and the Clean School Bus Program to subsidize their clean school bus purchases. Tax-exempt organizations that are purchasing qualified commercial clean vehicles could also take advantage of both these programs through Elective Pay.

Elective Pay

[Elective Pay](#) (or “Direct Pay”) allows traditionally tax-exempt entities, e.g., local governments or school districts, that qualify for a clean-energy investment tax credit to notify the IRS of their intent to claim said credit via pre-filing registration and subsequently file an annual tax return to claim the full value of the credit for tax years beginning after December 31, 2022. The IRS would then pay the entity the value of the credit.⁵

Stacking Programs to Increase Project Affordability

Scenario 1: School district A receives a tax-exempt grant in the amount of \$400,000 from a federal agency to purchase electric school bus Y. A purchases Y for \$400,000. A's basis in Y is \$400,000. Y qualifies for the maximum tax credit, \$40,000. However, because the amount of the tax-exempt grant plus the amount of the tax credit exceeds the cost of Y, A's tax credit is reduced by the amount necessary so that the sum of the grant and the tax credit does not exceed the cost of Y. A's tax credit is therefore reduced by \$40,000 to zero.

Scenario 2: The grant described above is \$300,000. A purchases Y using the grant and \$100,000 of A's own funding. A's basis in Y is \$400,000 and A's tax credit is \$40,000. Since the amount of the grant plus the amount of the tax credit (\$340,000) is less than the cost of Y, A's tax credit of \$40,000 is not reduced.

Table 2: Scenarios of Braided Program Funding

Investment Description	Scenario 1	Scenario 2
Investment in school bus	\$400,000	\$400,000
Tax-exempt grant received	\$400,000	\$300,000
Tax credit available	\$40,000	\$40,000
Grant + Credit total	\$440,000	\$340,000
Tax credit reduction (applied to not exceed cost)	-\$40,000	-\$0
Total funding provided to eligible entity	\$400,000	\$340,000

In summary, applicants of the Clean School Bus program could potentially take advantage of both the Commercial Clean Vehicle Credit and Elective Pay to receive additional financial support for their clean school bus purchases. It is important for applicants to carefully review the eligibility requirements and guidance provided by both the IRS and EPA to ensure they are taking full advantage of these programs.

⁵ <https://www.irs.gov/credits-deductions/elective-pay-and-transferability>