**Implementation Overview:
How the IRA Money Moves**

### ***Grants***

At its most basic, a grant provides government funding that is not expected to be paid back. However, within this broad category, there are several subtypes of grants that are used to distribute funding in the Inflation Reduction Act.

*Mandatory Grant:*

A mandatory grant is any grant in which funds are automatically awarded to all eligible applicants. Mandatory grants are not typically given to private organizations or individuals. Rather, they are awarded to state or local governments. Mandatory grants are typically created by legislation that appropriates money for a specific program and determines eligibility for lower levels of government to receive the money to implement the program.

Block grants—like the Environmental and Climate Justice Block Grants included in the Inflation Reduction Act—and formula grants—such as the High-Efficiency Electric Home Rebate included in the law—are usually subsets of mandatory grants. We explore these subsets in more detail below. Discretionary grants are mutually exclusive from mandatory grants.

*Formula Grant:*

A formula grant is a type of mandatory grant where funds are disbursed according to a “formula,” or a fixed set of criteria usually written into the enabling legislation. The formula dictates whether an entity is eligible for funds, and if so, how much. If an entity meets the formula, the award is automatic. The formula may be as simple as a flat dollar amount per unit of population, or it may be much more complex, including various funding, eligibility, program, and compliance criteria. However, it is always intended to be quantitative and objective.

Formula grants are typically awarded to either state or local governments. Large federal spending programs are often structured as formula grants to states, where every state receives an amount of funding based on its population and other characteristics, and then spends this funding to implement the program.

Formula grants are quite similar to block grants, and many programs qualify as both. When a distinction is made, block grants provide more flexibility and breadth to the awardees, while formula grants have more specific and quantitative funding structures and requirements. Formula grants that are not considered block grants may instead be considered as categorical grants.

*Block Grant:*

A block grant is a mandatory grant awarded to a government entity by a larger government entity to fulfill a broad set of government functions. In the case of a federal block grant, the government defines a set of functions to be carried out, and then awards grants to state or local governments to carry out those functions at their own discretion. A prominent example included in the Inflation Reduction Act is the Environmental and Climate Justice Block Grant, which can be used for community-led monitoring and remediation of emissions, mitigating the effects of urban heat islands, and facilitating the engagement of disadvantaged communities in federal and state policymaking.

Block grants are quite similar to formula grants, and many grant programs qualify as both. Block grants are mutually exclusive from categorical grants, as block grants give broad discretion to awardees to spend their funds, while categorical grants have highly specific requirements.

*Discretionary or Competitive Grant:*

A discretionary grant, also called a competitive grant, is a grant where awardees are chosen among a pool of applicants based on a review process. The review process will generally involve a set of fixed criteria based on the grant program, funding agency, or specific Request for Proposal (RFP), but it will also most likely involve some degree of subjective judgment.

Federal discretionary grants are typically awarded by federal agencies. There may be enabling legislation that allocates money for a specific grant program, or the grant program may be created by the agency using its existing budget. Either way, the agency typically has a good amount of control over how to evaluate applicants and award funds. State and local government agencies, private companies, nonprofits, labor unions, and individual people may be eligible applicants, depending on the grant program.

Mandatory grants are mutually exclusive from discretionary grants.

*Categorical Grant:*

A categorical grant is any grant from the federal government to state and local governments to fund a highly specific set of programs and activities. Head Start is a classic example of a categorical grant in which the U.S. Department of Health and Human Services (HHS) funds local awardees to operate childcare programs following a specific set of federal guidelines.

Categorical grants may be structured as either mandatory or discretionary grants, and they may be structured as formula or project grants. Categorical grants are mutually exclusive from block grants, as block grants give broad discretion to awardees to spend their funds, while categorical grants have highly specific requirements.

*Project Grant:*

A project grant is any grant awarded to fund a specific project, initiative, or service. These are typically competitive and may be awarded to government agencies, nonprofits, or private companies. Project grants are often considered a subset of categorical grants. The U.S. Department of Transportation’s (DOT) Capital Investment Grants are an example of a project grant program.

### ***Loans***

Broadly, loans are pools of government funding that are expected to be paid back, unlike grants. There are a number of loan programs included in the Inflation Reduction Act.

*Basic Loans*

The Inflation Reduction Act authorizes or funds the federal government to make loans for a variety of purposes. Particularly critical to the clean energy and manufacturing investments we highlight in this document are loans that would be administered by the DOE’s LPO, which operates programs to provide financing for clean and advanced energy, industrial, and clean vehicle manufacturing projects. The benefit of working with the LPO for a project is that these loans are lower cost, the LPO is able to offer more flexible financing options, and the office remains involved in the project for its lifetime—offering access to DOE’s team of experts to help ensure the success of the project.

*Loan Guarantees*

In some instances, DOE or other agencies are also able to provide loan guarantees—which reduce the risk of a project by having the federal agency agree to assume the debt for the loan should the borrower default—or coordinate with other parts of the federal government to provide a mix of grant, loan, or other financing.

### ***Bonds***

A bond is a security issued in exchange for a loan—essentially as an “IOU.” An entity can raise money by issuing a bond and selling it for cash to an investor. The bond typically stipulates a rate of interest to be paid over the life of the bond and a date of maturity when the principal is to be repaid in full.

There are a plethora of specific government bond programs designed for specific types of spending, projects, and circumstances, such as Qualified School Construction Bonds and Recovery Zone Economic and Facility Bonds.

### ***Tax Credits and Deductions***

Project developers, manufacturers, and consumers are able to offset some of the cost of projects and purchases through tax credits. A variety of tax credits are used throughout the Inflation Reduction Act to incentivize the use and manufacture of clean technology.

The Basics: Refundable vs. Nonrefundable Tax Credits and Direct Pay

Tax credits fall into two broad categories, refundable and nonrefundable. A refundable tax credit can be used to generate a federal tax refund larger than the amount of tax paid throughout the year. A nonrefundable tax credit can only offset taxes owed and not increase an applicant’s federal refund. Therefore, a refundable tax credit can guarantee a benefit and a nonrefundable credit cannot. All of the forms of tax credits discussed below may be refundable or nonrefundable.

Direct pay—which the Inflation Reduction Act applies to some tax credits—goes a step further, allowing developers to treat the tax credits as payments of their tax liability. Direct pay acts as a financing option for entities to receive their credit upfront, allowing them direct capital instead of relying on the tax equity financing market. Direct pay is available for the Investment and Production Tax Credits for eligible entities, including state, local, and tribal governments and tax-exempt entities.

*Investment Tax Credits*

The Inflation Reduction Act includes Investment Tax Credits (ITC)—dollar-for-dollar credits to offset expenses—for investments in renewable energy projects and the build out of manufacturing facilities to produce parts and materials for clean energy projects and clean vehicles.

*Production Tax Credits*

Production tax credits provide a rebate based on the amount of a relevant product made by an entity, such as a utility or manufacturer. One example is a rebate per kilowatt of electricity produced by a renewable source. These can also apply to manufacturing—a production tax credit would provide a certain amount for each blade or solar panel component produced.

*Consumer Tax Credits*

The law also includes a number of consumer tax credits to incentivize and support the use of clean energy and energy efficiency technologies as well as clean vehicles. For example, the Inflation Reduction Act includes significant extensions to energy efficiency tax credits for both homeowners and commercial property owners and developers. The Residential Energy Efficient Property Tax Credit (25C) is a tax credit that homeowners can use to make certain energy efficiency improvements to their homes and appliances. The Residential Clean Energy Credit (25D) is a tax credit that homeowners can use to install such things as solar panels and hot water heaters, batteries, geothermal heat pumps, and fuel cells.

Additionally, one exciting change to the tax code in the Inflation Reduction Act is that the Clean Vehicle Tax Credit, which will lower the upfront cost of purchasing a battery electric, plug-in hybrid, or fuel cell EV by up to $7,500, will also encourage car and battery manufacturers to bring their operations—and good automotive manufacturing jobs—onshore.

*Excise Tax*

An excise tax is a tax on goods or services. Some well-known examples of an excise tax include taxes on gasoline, alcohol, cigarettes, and tires. These taxes are common at the federal, state, and local levels of government. The Inflation Reduction Act includes a permanent extension of the Black Lung Excise Tax, an excise tax on coal used domestically which funds the Black Lung Disability Trust Fund to help pay for expenses for miners disabled by Black Lung Disease and their families.

*Tax Deduction*

Similar to a tax credit, a tax deduction lowers the amount owed to the Internal Revenue Service (IRS), but it does so in a different way. While a tax credit reduces the amount of money owed to the IRS, a tax deduction reduces the amount of income subject to being taxed.

Source: <https://www.bluegreenalliance.org/site/a-user-guide-to-the-inflation-reduction-act/>