

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Inflation Reduction Act: Implementation of the Elective Payment and Transfer of Credit Provision**

September 19, 2024

Report Number: 2024-408-066

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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# HIGHLIGHTS: Inflation Reduction Act: Implementation of the Elective Payment and Transfer of Credit Provision

Final Audit Report issued on September 19, 2024

Report Number 2024-408-066

## Why TIGTA Did This Audit

This audit was initiated because the Inflation Reduction Act of 2022, created new Internal Revenue Code sections allowing applicable entities to treat the unused portion of certain non-refundable clean energy tax credits as an elective payment that generates a refund and allowing eligible taxpayers to elect to transfer, *i.e.*, sell, certain clean energy tax credit(s) to an unrelated third-party buyer in exchange for cash.

The overall objective of this audit was to assess the IRS's development and implementation of processing controls for the registration for an elective payment or transfer of certain clean energy tax credits through the Pre-Filing Registration tool within the Energy Credits Online portal.

## Impact on Tax Administration

IRS regulations require taxpayers that intend to make an election for an elective payment or a transfer of credit to register each property or facility used to earn the credit after the property or facility is placed into service. The IRS developed the Pre-Filing Registration tool within the Energy Credits Online portal for taxpayers to register their properties and facilities. As of May 21, 2024, TIGTA's analysis identified more than 1,700 entities entered information into the Pre-Filing Registration tool accounting for about 62,500 properties or facilities. In addition, as of this same time frame, the IRS reported 130 tax returns had been filed reporting elective payments and/or transfers of credits totaling almost \$381 million.

## What TIGTA Found

Upon enactment of the Inflation Reduction Act of 2022, the IRS began the process of implementing the elective payment and transfer of credits provision by:



Updating 30 tax forms and instructions and 9 publications.



Developing a process to register properties with the IRS prior to filing a tax return.



Developing a communication and outreach plan to ensure that taxpayers are provided accurate information on the changes made by the legislation.



Issuing guidance on elective payment, transfer of credits, and the pre-file registration process.

In addition, the IRS established access controls for the Energy Credits Online portal and a process to evaluate the properties being registered. The portal is accessible through IRS.gov where an individual user authenticates themselves and creates an account. The IRS also developed a new process to evaluate the entities and properties prior to issuing registration numbers to help prevent duplication, improper payments, or excessive payments.

Moreover, the IRS developed a process to use the Dependent Database to evaluate registration information, including those properties and entities designated as high-risk, prior to refund issuance. Tax returns with registration numbers identified [REDACTED] by the Dependent Database and claiming a refund of an elective payment [REDACTED]. As of May 24, 2024, the Dependent Database processing filters identified 30 tax returns for further review that potentially reported elective payments or transfers of credits.

However, the IRS's processes [REDACTED]

[REDACTED] tax returns report [REDACTED]

TIGTA's analysis of the registration data identified 191 entities that [REDACTED]

## What TIGTA Recommended

TIGTA recommended that the IRS develop a process to [REDACTED]

[REDACTED] The IRS agreed with the recommendation and plans to explore options [REDACTED]



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

September 19, 2024

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

**FROM:** Danny R. Verneuille  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Inflation Reduction Act: Implementation of the  
Elective Payment and Transfer of Credit Provision  
(Audit No.: 2024408016)

This report presents the results of our review to assess the Internal Revenue Service's development and implementation of processing controls for the registration for an elective payment or transfer of certain clean energy tax credits through the Pre-Filing Registration tool within the Energy Credits Online portal. This review is part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Tax Law Changes*.

Management's complete response to the draft report is included as Appendix II. If you have any questions, please contact me or Diana Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services).

# Table of Contents

<a href="#">Background</a> .....	Page 1
----------------------------------	--------

<a href="#">Results of Review</a> .....	Page 3
---	--------

<a href="#">Actions Were Taken to Implement the Elective Payment and Transfer of Credit Provision for the Clean Energy Tax Credits</a> .....	Page 3
--	--------

<a href="#">Processes and Procedures Were Developed to Verify Entities and Register Their Elections</a> .....	Page 6
---	--------

<a href="#">*****2***** the Elective Payment or Transfer of Credit Is *****2***** Tax Return Processing</a> .....	Page 8
---	--------

<a href="#">Recommendation 1:</a> .....	Page 9
---	--------

## Appendices

<a href="#">Appendix I – Detailed Objective, Scope, and Methodology</a> .....	Page 10
<a href="#">Appendix II – Management’s Response to the Draft Report</a> .....	Page 12
<a href="#">Appendix III – Glossary of Terms</a> .....	Page 15
<a href="#">Appendix IV – Abbreviations</a> .....	Page.17

## Background

On August 16, 2022, the President signed the Inflation Reduction Act of 2022 (IRA) into law, marking the most significant action Congress has taken on clean energy and climate change in the nation's history.<sup>1</sup> The IRA provision 13801, *Elective Payment for Energy Property and Electricity Produced from Certain Renewable Resources, etc.*, generally allows entities to benefit from clean energy tax credits in the form of an elective payment, *i.e.*, Internal Revenue Code (I.R.C.) Section (§) 6417, or to sell all or part of the tax credit(s) to an unrelated third-party buyer in exchange for cash, *i.e.*, I.R.C. § 6418.<sup>2</sup> The provision applies to taxable years beginning after December 31, 2022, meaning that for calendar year tax return filers, this election could be made on tax returns due as early as March 15, 2024, *i.e.*, due date for S Corporation and partnership tax returns. Provision 13801 applies to certain clean energy tax credits as shown in Figure 1.

**Figure 1: Clean Energy Tax Credits Eligible for Elective Payments and Transfer<sup>3</sup>**

Internal Revenue Code	Internal Revenue Code Title
§ 30C	Alternative Fuel Vehicle Refueling Property Credit
§ 45(a)	Electricity Produced from Certain Renewable Resources, etc.
§ 45Q	Credit for Carbon Oxide Sequestration
§ 45U	Zero-Emission Nuclear Power Production Credit
§ 45V	Credit for Production of Clean Hydrogen
§ 45W	Credit for Qualified Commercial Clean Vehicles
§ 45X	Advanced Manufacturing Production Credit
§ 45Y	Clean Electricity Production Credit
§ 45Z	Clean Fuel Production Credit
§ 48	Energy Credit
§ 48C	Qualifying Advanced Energy Project Credit
§ 48E	Clean Electricity Investment Credit

Source: Treasury Inspector General for Tax Administration (TIGTA) review of the IRA.

There are two types of tax credits available to entities. Generally, an investment tax credit is based on the cost of the clean energy system that is placed into service during the year, and a production tax credit is based on the power that is generated or the production and sale of certain clean energy components. These credits are non-refundable, meaning that any credit that exceeds a taxpayer's tax liability will not be refunded to the taxpayer. As of August 2022, the Congressional Budget Office estimates that these clean energy tax credits will cost the government approximately \$213 billion over 10 years, through Calendar Year 2031.<sup>4</sup>

<sup>1</sup> Pub. L. No. 117-169, 136 Stat. 1818.

<sup>2</sup> See Appendix III for a glossary of terms.

<sup>3</sup> This review is only focused on the I.R.C. sections included in the IRA and does not include §48D, *Advanced Manufacturing Investment Credit*, included in the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act of 2022 (Pub. L. 117-167, 136 Stat. 1366). I.R.C. § 45Y, § 45Z, and § 48E are effective after December 31, 2024.

<sup>4</sup> The Congressional Budget Office does not provide an estimate specifically related to the provision on transfer of credit or elective payment.

## I.R.C. § 6417 - Elective payment of applicable credits

Applicable entities can treat the unused portion of these non-refundable credits as an elective payment that generates a refund when the applicable entity files their annual tax return, *e.g.*, Form 990-T, *Exempt Organization Business Income Tax Return*.<sup>5</sup> Applicable entities include tax-exempt organizations, States, and political subdivisions such as local governments, Indian tribal governments, Alaska Native Corporations, the Tennessee Valley Authority, rural electric cooperatives, and U.S. territories and their political subdivisions.

Additionally, taxable entities, *e.g.*, corporations and partnerships, may opt to make an election for an elective payment, or a transfer of credit, for credits related to the production of clean hydrogen (I.R.C. § 45V), carbon oxide sequestration (I.R.C. § 45Q), and advanced manufacturing production (I.R.C. § 45X).

## I.R.C. § 6418 - Transfer of certain credits

Eligible taxpayers that earn clean energy tax credits can elect to transfer, *i.e.*, sell all or part of the tax credit(s) to one or more unrelated third-party buyer(s) in exchange for cash. This allows the selling entity to benefit from any unused portion of the tax credit and allows the unrelated third-party to use the tax credit to offset their tax liability. The transfer of the credit is reported on both the buyer's and seller's Form 3800, *General Business Credit*, attached to their tax returns. The transfer option is not available to applicable entities, as defined above, that qualify for an elective payment.

## Registration process

Internal Revenue Service (IRS) regulations require taxpayers that intend to make an election for an elective payment or a transfer of credit to register each property or facility used to earn the credit. Registration occurs after the property or facility is placed into service and prior to the filing of the tax return.<sup>6</sup> Each qualifying property or facility will receive its own unique registration number. For the transfer of credit, the seller/transferor registers the property and provides the registration number to the buyer/transferee. Taxpayers with properties or facilities that qualify for one of the clean energy tax credits but are not making an election for an elective payment or transfer of credit do not need to complete the pre-filing registration process.

The IRS developed the Pre-Filing Registration tool within the Energy Credits Online (ECO) portal for taxpayers to register their properties and facilities and obtain their approved registration

### Elective Payment

Allows applicable entities that do not owe Federal income tax to benefit from clean energy tax credits. Entities can treat the credit as a deemed payment of tax and receive a refund/payment of the credit amount.

I.R.C. § 6417

### Transfer of Credit

Allows an eligible taxpayer that qualifies for a clean energy tax credit to transfer all or a portion of the credit to one or more unrelated third-party buyer(s) in exchange for cash. The credit is then used to offset tax owed on the buyer's Federal income tax return.

I.R.C. § 6418

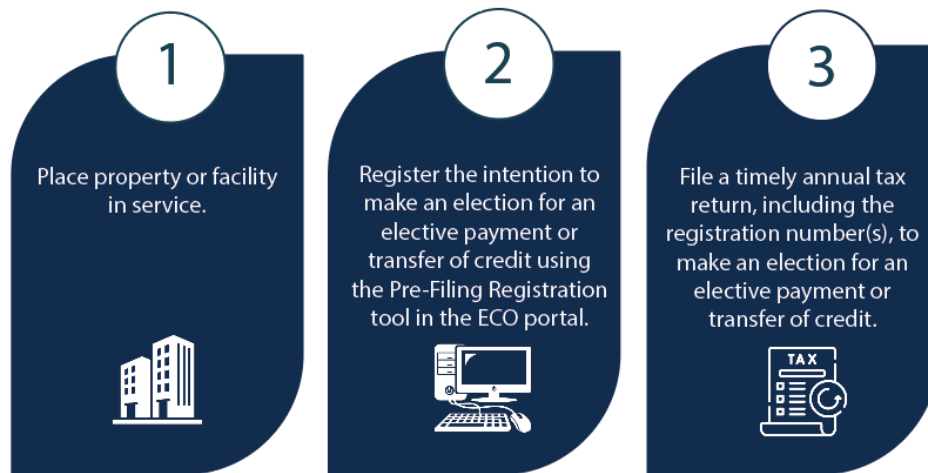
<sup>5</sup> Applicable entity is defined in I.R.C. § 6417(d)(1)(A).

<sup>6</sup> The placed in service date for a property or facility is the date it is ready and available for a specific use.

numbers. The IRS also developed a separate part of the ECO portal specific to the clean vehicle tax credits. We are conducting a separate audit on the use of the ECO portal related to clean vehicle registration and reporting requirements.<sup>7</sup>

Figure 2 provides a summary of the pre-file registration process and claiming the credits on the annual tax return.

**Figure 2: Pre-File Registration Process and Claiming the Credits**



*Source: TIGTA review of the pre-file registration process.*

## **Results of Review**

### **Actions Were Taken to Implement the Elective Payment and Transfer of Credit Provision for the Clean Energy Tax Credits**

The implementation of new legislation involves issuing guidance, developing communication and outreach plans, creating or updating tax products, and identifying potential computer programming for processing tax returns affected by the tax provisions. Additionally, the IRS and the Department of the Treasury issue guidance documents to assist taxpayers with the interpretation of the I.R.C. sections associated with provisions in the IRA. Upon enactment, the IRS began the process of implementing the elective payment and transfer of credits provision of the IRA by:



Updating 30 tax forms and instructions and 9 publications.



Developing a process to register properties with the IRS prior to filing a tax return.

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<sup>7</sup> TIGTA, Audit No. 202340825, *Implementation of Clean Vehicle Credits*.



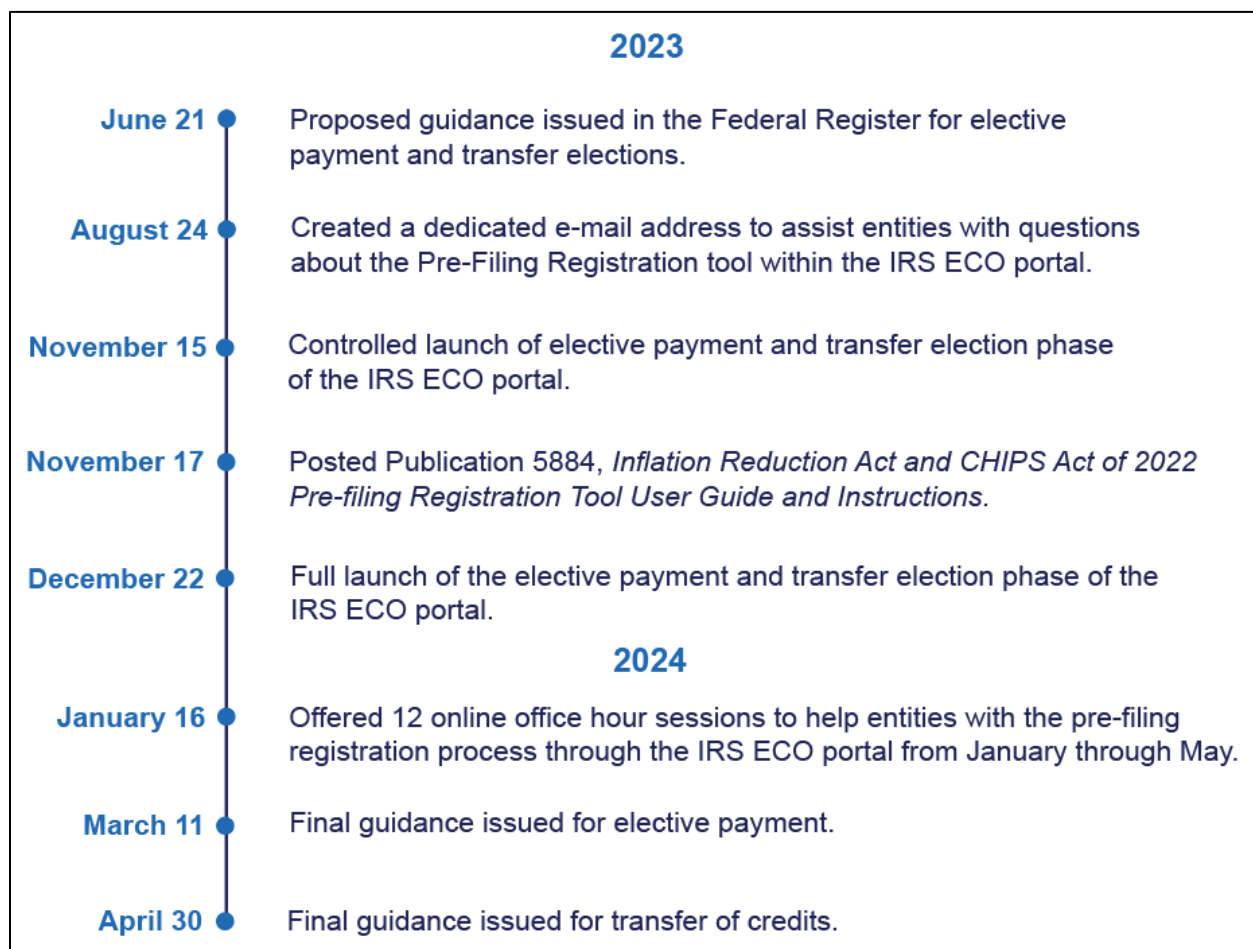
Developing a communication and outreach plan to ensure that taxpayers are provided accurate information on the changes made by the legislation.



Issuing guidance on elective payment, transfer of credits, and the pre-file registration process.

Figure 3 provides the key events in the timeline to implement the elective payment and transfer of credits provision.

**Figure 3: Key Events in the Implementation of the Elective Payment and Transfer of Credits Provision of the IRA<sup>8</sup>**



Source: TIGTA summary of various IRS implementation actions between June 2023, and April 2024.

### **Tax forms and instructions were updated to report the elective payment and transfer of credit election**

The IRS modified tax forms and instructions to capture the elective payment or transfer of credit election, including the registration number(s) on the taxpayer's annual tax returns. To be eligible for the elective payment or transfer of credit, the taxpayer must timely file, including extensions, and report information about the elective payment or credit transfer on their tax

<sup>8</sup> Taxpayers register for the CHIPS Act of 2022 credit, *i.e.*, I.R.C. § 48D, through the Pre-Filing Registration tool within the ECO portal.



return. Taxpayers that make an election for an elective payment or transfer of credit must include:

- Form 3800 showing the registration number and the amount of each clean energy tax credit carried to the annual tax return, *e.g.*, Form 1065, *U.S. Return of Partnership Income*; Form 1120, *U.S. Corporation Income Tax Return*; Form 990-T, *etc.*
- All relevant source forms, *e.g.*, Form 3468, *Investment Credit*, or Form 8911, *Alternative Fuel Vehicle Refueling Property Credit*, showing the computation and eligibility of each credit and property.

In instances where the taxpayer elects to transfer the credit, the taxpayer that is earning ("selling") the credit will report the credit on both the Form 3800 and associated source form. Whereas the taxpayer that is receiving ("buying") the transferred credit will only file the Form 3800. However, both the buyer and seller of the credit are required to provide a transfer of credit election statement with their tax return. This statement should include the taxpayer's name, address, Taxpayer Identification Number for both the seller and buyer, a description of the type and amount of the eligible tax credit transferred, the timing and amount of cash paid for the eligible tax credit transferred, and the registration number related to the eligible credit property.

### **Communication and outreach plans were developed and are being followed**

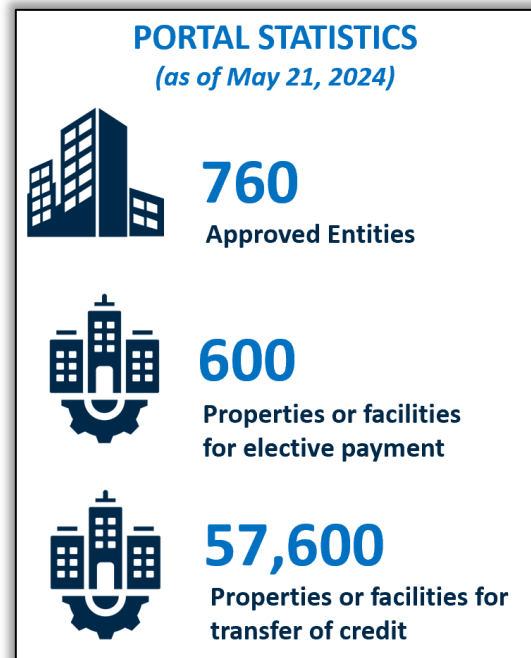
In June 2023, the IRS drafted a communication and outreach plan to ensure that taxpayers understand how to use the Pre-Filing Registration tool and the requirements of the IRA provision related to elective payment and transfer of credits. The plan details communication methods, audiences, messages, owners, target dates, and statuses. Our review found that the IRS is following its plan to inform both internal and external audiences about the clean energy tax credits and the pre-file registration process. As part of its communication and outreach plan, the IRS participated in Treasury Tribal Advisory Committee meetings, tax conferences, held webinars for tax-exempt and government entities, and posted regular updates on its website. Other actions taken by the IRS included:

- Releasing several guidance documents to the public explaining the election and providing a user's guide for accessing the Pre-Filing Registration tool.
- Offering online office hours from January through May 2024, to assist entities with the pre-filing registration process. Taxpayers registered to attend a specific timeslot and had the ability to ask questions about the process. The IRS reports almost 900 participants attended the 12 online office hour sessions.
- Establishing a dedicated e-mail address to assist taxpayers with the pre-file registration process. For example, between December 7, 2023, and June 24, 2024, the IRS received over 450 e-mails to the dedicated e-mail address requesting assistance with account creation and inputting information into the portal.

## Processes and Procedures Were Developed to Verify Entities and Register Their Elections

As of May 21, 2024, our analysis of the pre-filing registration data identified that more than 1,700 entities entered information into the tool. These entities accounted for about 62,500 properties or facilities. Of these, almost 760 entities with approximately 58,200 properties or facilities were issued registration numbers.<sup>9</sup>

Our review determined that the IRS established access controls for the ECO portal and a process to evaluate the properties being registered. The portal is accessible through IRS.gov, which leverages ID.me, a technology provider, to authenticate the individual user's identity. Once the individual user authenticates themselves, they can then register to create a Clean Energy Account. The user will go through a separate authorization process to ensure that they are an authorized representative of the entity. In addition to providing the Employer Identification Number and other details about the entity, the user will also provide their personal information, such as name and address. After a successful authorization process, they can access their account and begin the process of submitting pre-file registration packages.



As an additional measure to verify that the account is associated with the business, the IRS sends a letter CP199A, *Clean Energy Account Creation*, [REDACTED] to notify the entity that a Clean Energy Account was created. This letter provides information on what to do if the entity did not create an account. Our analysis of IRS data as of May 13, 2024, found that the IRS sent all entities in the portal a CP199A letter. As of June 3, 2024, the IRS indicated that it has not received any responses from taxpayers disagreeing with their account creation.

### **Evaluation of properties being registered**

As of February 7, 2024, the IRS completed the pre-file registration review for 36 entities registering for an elective payment or transfer of credit. Our review of information for these 36 entities found that the IRS followed its procedures and either identified the appropriate risk levels or declined to issue registration numbers, as warranted. We found the reviews of the registration packages were generally completed timely. Additionally, the IRS designated 10 of the 36 entities as high-risk, and we agreed with its determinations.

To facilitate the registration reviews, the IRS developed a new case management system to allow for the timely review of submissions. The case management system allows the IRS to review the entity and property details, identify risk, and facilitate communication with registrants. The IRS

<sup>9</sup> The 58,200 properties or facilities consist of 600 elective payments and 57,600 transfers of credits.

also developed a review guide for employees and established a goal of 38 days to assign to a reviewer (3 days), review (30 days), and approve or deny (5 days) the registration package. The review is a manual review process conducted by employees from the Large Business and International and Tax-Exempt and Government Entities Divisions. As part of the review process, employees evaluate the entities and properties prior to issuing registration numbers to help prevent duplication, improper payments, or excessive payments. For example, employees review the [REDACTED]

During the review process, the IRS may identify questionable registration submissions and may either decline to issue the registration number(s) or issue the registration number(s) and label the entity or property as high-risk. Examples of questionable registrations include entities that:

[REDACTED]  
[REDACTED]  
[REDACTED]

Additionally, a property or facility may be provided a registration number and classified as high-risk in certain situations where the IRS [REDACTED]

[REDACTED] For example, the IRS can determine that an entity [REDACTED]

As of

May 21, 2024, the IRS has identified 133 of the more than 1,700 entities and 606 of the 62,500 properties or facilities [REDACTED]

The IRS will provide updates to the entity on the status of the registration review. The status updates are available to view on the entity's Clean Energy Account page. If the registrant opted-in to receive e-mails, the IRS will send an e-mail from the Pre-Filing Registration tool to the entity informing them to log into the portal to see status updates on their registration. These updates may include whether the registration numbers were issued (or not), or that additional information is needed before the registration numbers may be issued.

### **Tax credit amount not included in the pre-filing registration data**

As part of the registration process, entities provide specific information about the property along with their election. This information includes the Employer Identification Number, property address, date the property was placed into service, election of transfer of credit or elective payment, *etc.* However, we found that the amount of the credit is not reported as a data element in the Pre-Filing Registration tool. Instead, the amount of the credit is reported when the tax return is filed.

When we discussed this with IRS management, they stated that the cost of projects, which is used to determine the amount of the credit, is typically in the supporting documentation attached to the registration. According to management, the intent of the registration is to validate the entity, thus the project cost is not needed. Management also noted that the production numbers that are relevant for some of the credits might not be available at the time an entity registers on the portal. They also indicated that it could be difficult for entities to calculate these production-based tax credits before the tax year ends.

## \*\*\*\*\*2\*\*\*\*\* the Elective Payment or Transfer of Credit Is \*\*\*\*\*2\*\*\*\*\* Tax Return Processing

Our review found that the [REDACTED] tax returns. This occurs when a taxpayer has [REDACTED]. Taxpayers are instructed to report the aggregate amount of the credit on Form 3800 Part III, *Current Year General Business Credits (GBCs)*, along with the first registration number reported on Form 3800 Part V, *Breakdown of Aggregate Amounts on Part III for Facility-by-Facility, Multiple Pass-Through Entities, etc.* [REDACTED]



Figure 4 shows excerpts from the Form 3800 Part III and Part V that taxpayers will use to report their elective payments or transfers of credits.

**Figure 4: Form 3800 Part III and Part V**

Form 3800 (2023) Page 3

**Part III** **Current Year General Business Credits (GBCs)** (see instructions). If there is more than one credit amount to report on lines 1a through 1zz, line 3, or lines 4a through 4z, enter the number of items you have for that line in column (c) and complete Part V.

	(a) Current year credits from:	(b) Elective payment or transfer registration number	(c) # items	(d) Pass-through or transfer credit entity EIN	(e) Credits from non-passive activities	(f) Credits from passive activities	(g) Credit transfer election amount (enter amounts transferred out as a negative amount)	(h) Gross elective payment election amount	(i) Net elective payment election amount	(j) Combine columns (e), (f), and (g), less column (i)
1a	Form 3468, Part II . . . . .									
b	Form 7207 . . . . .									
c	Form 6765 . . . . .									
d	Form 3468, Part III . . . . .									

Form 3800 (2023) Page 7

**Part V** **Breakdown of Aggregate Amounts on Part III for Facility-by-Facility, Multiple Pass-Through Entities, etc.** (see instructions)

	(a) Line number from Part III	(b) Elective payment or transfer registration number	(c) Pass-through or transfer credit entity EIN	(d) Current year credits from non-passive activities	(e) Current year credits from passive activity before passive activity credit limitation	(f) Credit transfer election amount	(g) Gross elective payment election amount	(h) Net elective payment election amount	(i) Carryover of passive activity credit allowable in current year
1									
2									
3									

Source: Excerpts of Form 3800 for Tax Year 2023.

On April 15, 2024, we discussed our concerns regarding [REDACTED]. IRS management stated that the information [REDACTED]. However, the IRS is [REDACTED]. IRS management stated that there is a process [REDACTED]. However, there is [REDACTED]. Our analysis of the pre-filing registration data identified 191 entities that [REDACTED]. In total, these 191 entities were associated with [REDACTED]. IRS management explained that it is not uncommon for an entity to have several hundred or thousands of associated properties or facilities. For example, an entity can own several hundred wind turbines, each located at a different address and requiring its own registration number.

Process established to [REDACTED] 2 [REDACTED]  
[REDACTED] 2 [REDACTED]

As previously mentioned, the IRS will designate properties or entities as high-risk. The IRS's Dependent Database will evaluate registration information, including those properties and entities designated as high-risk, prior to refund issuance, as well as evaluate the presence and validity of registration numbers, *e.g.*, is the registration number reported on the tax return, and is it a valid/correct registration number. For those tax returns identified by the Dependent Database and that are claiming a refund of an elective payment, the IRS plans to [REDACTED]

[REDACTED] in the case management system. For those tax returns reporting [REDACTED] the IRS will [REDACTED]  
[REDACTED] The IRS stated that tax returns with transfer of credit election are [REDACTED]  
[REDACTED]

As of May 21, 2024, the IRS reported 130 tax returns had been filed reporting elective payments and/or transfers of credits totaling almost \$381 million. This includes 16 tax returns reporting almost \$358 million in elective payments and 119 tax returns reporting transfers of credits totaling over \$23 million.<sup>10</sup> Additionally, as of May 24, 2024, the Dependent Database processing filters identified 30 tax returns for further review that potentially reported elective payments or transfers of credits totaling [REDACTED]  
[REDACTED]

Due to the low volume of tax returns received to date, we have not been able to fully evaluate the impact that elective payments and transfers of credits have on tax administration. As such, we plan to conduct a separate review that will evaluate the IRS's processes and procedures to identify and resolve tax returns [REDACTED]  
[REDACTED]

**Recommendation 1:** The Commissioner, Large Business and International Division, should develop a process to [REDACTED]  
[REDACTED]

**Management's Response:** IRS management agreed with the recommendation and plans to explore options [REDACTED] Also, management stated that existing processes are in place where employees have access to the Large Business and International Division Image Net [REDACTED]  
[REDACTED]

<sup>10</sup> There are five entities claiming both a transfer of credit and an elective payment on their tax return.

## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to assess the IRS's development and implementation of processing controls for the registration for an elective payment or transfer of certain clean energy tax credits through the Pre-Filing Registration tool within the ECO portal. To accomplish our objective, we:

- Evaluated the IRS's communication and customer support strategy for the registration process to ensure that accurate and consistent assistance was provided to taxpayers attempting to register in the Pre-Filing Registration tool.
- Reviewed the IRS's processes and procedures for the validation of entities and assignment of registration numbers in the Pre-Filing Registration tool.
- Reviewed the IRS's plans to create processing controls and a post-refund compliance plan to ensure that taxpayers with tax returns reporting elective payments or transferred credits are properly registered with the IRS.

#### **Performance of This Review**

This review was performed with information obtained from IRS personnel within the Office of Information Technology in Kansas City, Missouri; Large Business and International Division in New York, New York; and Tax Exempt and Government Entities and Taxpayer Services Divisions in Washington, D.C., during the period October 2023 through June 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Darryl J. Roth, Director; Jonathan W. Lloyd, Audit Manager; Cindy K. Hung, Lead Auditor; Jeffrey L. Felshaw, Auditor; and Ian B. Maloney, Auditor.

#### **Data Validation Methodology**

During this review, we relied on data extracts of the Pre-Filing Registration tool within the ECO portal provided by the IRS. We evaluated the data by performing electronic testing of required data elements and selecting random samples to verify against the IRS's Employee User Portal and Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this review.

#### **Internal Controls Methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the

following internal controls were relevant to our audit objective: the IRS's communication and customer support for the ECO portal; processes and procedures for validating entities and assigning registration numbers; and compliance plans to ensure eligibility and accuracy of claims. We evaluated these controls by reviewing the IRS's communication and customer support plans for elective payment and transfer elections; assessing the processes and procedures for reviewing and validating entities and assigning registration numbers; reviewing the compliance plans and the Internal Revenue Manual; holding discussions with IRS management; and reviewing other relevant documentation obtained from the IRS.



## Appendix II

### Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

MEMORANDUM FOR DANNY VERNEUILLE  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

**FROM:** Holly O. Paz Digitally signed by Holly O. Paz  
Date: 2024.09.05  
09:31:34 -0400  
Paz  
Commissioner, Large Business and International Division

**SUBJECT:** Draft Audit Report – Inflation Reduction Act: Implementation of  
the Elective Payment and Transfer of Credit Provision  
(Audit No.: 2024408016)

Thank you for the opportunity to review and comment on the subject draft audit report. On August 16, 2022, the President signed the Inflation Reduction Act of 2022 (IRA) into law, marking the most significant action Congress has taken on clean energy and climate change in the nation's history. We appreciate TIGTA's recognition of the IRS's efforts to date to implement the new IRA Internal Revenue Code section 6417, elective payment of applicable credits, and section 6418, transfer of certain credits. The IRS has worked on comprehensive implementation efforts, including issuing guidance, creating and updating tax forms, developing communications and other customer service resources to assist taxpayers in claiming IRA credits and making an elective payment or transfer election.

The provision includes new and novel features that required the IRS to develop new processes and procedures. The IRS developed the Pre-Filing Registration tool within the Energy Credits Online (ECO) for taxpayers to register their properties and facilities and obtain registration numbers to make an elective payment or transfer election. As outlined in the report, the IRS provided customer service by establishing office hours where the IRS answered taxpayer questions and established an e-mail box to address inquiries and concerns. The IRS resolved these inquiries in an average of 10 calendar days and adjusted its systems and processes based on the feedback received. These activities will continue for the foreseeable future. The IRS also established processes, procedures, and controls to review pre-filing registration requests and the associated tax returns at filing before issuing refunds. All these efforts are designed to ensure the integrity of sections 6417 and 6418 and provide guardrails to identify and prevent improper payments and potential fraud while assisting qualified taxpayers with registration and return filing.

We agree with TIGTA's recommendation. Attached is our detailed response to the recommendation. If you have any questions, please contact Scott Ballint, Director,



2

Enterprise Activities Practice Area by e-mail ([Scott.Ballint@irs.gov](mailto:Scott.Ballint@irs.gov)) or phone (304-238-8235).

Attachment

Attachment

**RECOMMENDATION 1:**

The Commissioner, Large Business and International Division, should develop a process to [REDACTED]

**CORRECTIVE ACTION:**

The IRS agrees with this recommendation. We will explore options [REDACTED]  
[REDACTED] Also, existing processes are in place where employees have access to LB&I Image Net (LIN) [REDACTED]  
[REDACTED]

**RESPONSIBLE OFFICIAL:**

Large Business and International Division, Enterprise Activities Practice Area.

**IMPLEMENTATION DATE:**

July 31, 2025

**CORRECTIVE ACTION MONITORING PLAN:**

The IRS will monitor this corrective action as part of our internal management system of controls.

## Appendix III

Glossary of Terms

Term	Definition
Applicable Entity	Any organization exempt from the tax imposed by subtitle A of the I.R.C., any State or political subdivision thereof, the Tennessee Valley Authority, an Indian tribal government, an Alaska Native Corporation, or any corporation operating on a cooperative basis which is engaged in furnishing electric energy to persons in rural areas.
Business Master File	The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Calendar Year	Twelve (12) consecutive months ending December 31.
Dependent Database	A risk-based audit selection tool used to identify tax returns for audit. This tool includes information databases with birth certificate information and court documents used to establish a relationship and residency between a taxpayer and the qualifying children claimed on a tax return.
Employee User Portal	An internal IRS portal that allows IRS employee users to access IRS data systems, such as tax administration processing systems, financial information systems, and other data and applications, including mission-critical applications. TIGTA auditors can also request access to this information.
Employer Identification Number	A unique, nine-digit number used to identify a taxpayer's business account.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Code	The body of law that codifies all Federal tax laws. These laws constitute Title 26 of the United States Code, which is a consolidation and codification by subject matter of the general and permanent laws of the United States.
Internal Revenue Manual	Primary source of instructions to employees relating to the administration and operation of the IRS. The Manual contains the direction employees need to carry out their operational responsibilities.
Partnership	A contractual relationship between two or more parties to engage in the joint operation of trade or business.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
S Corporation Tax Return	Form 1120-S, <i>U.S. Income Tax Return for an S Corporation</i> , is filed by qualifying small business corporations and includes amounts distributed to shareholders.

<b>Term</b>	<b>Definition</b>
Taxpayer Identification Number	A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

## **Appendix IV**

### **Abbreviations**

ECO	Energy Credits Online
IRA	Inflation Reduction Act of 2022
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,  
contact our hotline on the web at [www.tigta.gov](http://www.tigta.gov) or via e-mail at  
[oi.govreports@tigta.treas.gov](mailto:oi.govreports@tigta.treas.gov).**

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at [www.tigta.gov/form/suggestions](http://www.tigta.gov/form/suggestions).**

Information you provide is confidential, and you may remain anonymous.