Claiming Tax Incentives for Your Clean Energy Project

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The Inflation Reduction Act introduced and expanded tax credits for clean energy technologies over the next decade. The Act included new provisions enabling tax-exempt and governmental entities to access some of the tax credits. Vermont's municipalities – and agencies and instrumentalities of state and local government, such as fire, utility, and solid waste districts and transportation and public safety authorities – are eligible to file a claim for one or more eligible projects. This resource helps you understand the claims process.

What is Elective Pay (Direct Pay)?

The mechanism to claim these tax credits is called "**Elective Pay**" (sometimes referred to as "Direct Pay"). Municipalities can receive a payment equal to the full value of tax credits for building qualifying clean energy projects. Unlike competitive grant and loan programs, in which applicants may not receive an award, elective pay allows municipalities to get their payment if they meet the requirements for both elective pay and the underlying tax credit. The municipality implements its eligible project, notifies the Internal Revenue Service (IRS) of its intent to claim the credit, and files an annual tax return to claim elective pay for the full value of the credit. The IRS then pays the municipality the value of the credit. Several Vermont municipalities have used elective pay successfully.

Of the 12 elective pay tax credits, Vermont's municipalities likely would use the ones for generating clean electricity through solar, wind, and geothermal and for battery storage projects (§ 48; § 48E); installing electric vehicle (EV) charging infrastructure (§ 30C); and purchasing clean vehicles for their vehicle fleets (§ 45W).

For more information about using elective pay on projects that are receiving grants and forgivable loans, see Q41 on the Internal Revenue Service's Elective pay and transferability frequently asked questions webpage.

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Why Apply for Elective Pay?

Elective pay can make it easier for local governments to invest in clean energy and can potentially allow them to take on bigger projects faster. Deploying more clean energy into local communities helps save residents money, cuts harmful pollution, and improves public health.

Example. The Town of Sheffield installed a 10-kW solar array and battery backup system with the help of Elective Pay and several grants. It filed for its Elective Pay reimbursement when paper filing was the only option. In December 2024, Sheffield received an Elective Pay refund of $32,868. The Town also received an interest payment because its refund took longer than 45 days.

Example. The Town of Walden installed a 17.46 KW system with 36 ground mounted 485-watt panels at its town garage site using local funds and Elective Pay. The project cost was $54,713. The Town filed electronically for an Elective Pay refund in early 2025. In late May 2025, Walden received its Elective Pay refund of $16,414.

How Does My Municipality Apply for Elective Pay?

Municipalities wishing to claim elective pay need to complete the following steps. Please consult the IRS website for the latest information on incentives for:

- clean vehicles (§ 45W),
- EV charging, a.k.a. Alternative Fuel Vehicle Refueling Property Credit (§ 30C), and
- clean electricity (§ 48 for pre-2025 and § 48E for 2025 onwards).

The IRS summary of the clean electricity credit can be useful.

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Step 1: Identify the project and the credit you want to pursue.

Confirm that the clean energy project the municipality is building, or wants to build, qualifies for one of the IRA tax credits that are applicable for elective pay. The municipality will need to obtain and retain all necessary documentation to prove it has met the requirements for any tax credits and bonuses its wants to claim. Lawyers for Good Government (L4GG), a nonprofit organization that leverages pro bono attorneys to promote good government, developed a Documentation Checklist to help identify and retain documents needed to claim a tax credit and to help substantiate that a tax filer has met tax credit requirements in case of IRS audit.

In general, US Treasury and the IRS will not provide personalized tax advice on whether the municipality's project or activity is eligible for a tax credit. These resources can help determine eligibility:

- The IRS Elective pay and transferability frequently asked questions webpage provides robust information to help the municipality qualify for and claim the credit.
- The Clean Energy Tax Navigator walks through the process of determining eligibility for Elective Pay. It is designed to be a free, public one-stop shop for tailored Elective Pay information.
- VLCT recommends municipalities consult with their auditors and a tax advisor.

Step 2: Complete your project, place it into service, and pick a tax year.

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Municipalities only can use elective pay after they have earn the tax credit. For Investment Tax Credits, the credit is earned during the tax year that the clean energy project is placed in service.

First time tax filers, like municipalities, declare their tax year as part of the tax credit claim process. Most municipalities will choose to use their fiscal year as their tax year, but that is not required. If the municipality declares its tax year as something other than its fiscal year, it will have other obligations, such as reconciling any difference between its regular books of account and its chosen taxable year" (IRS ***Elective pay and transferability frequently asked questions: Elective pay***, Q23). The IRS has stated that there will be an opportunity to re-align tax year to the fiscal year in the future. As of January 2025, the IRS had not issued guidance on the realignment process.

Step 3: Determine when your tax return will be due.

For most governmental entities, the return for a taxable year is due 4.5 months after the end of that taxable year. See IRS Return due dates for exempt organizations - Form 990-T (corporations) to determine when the municipality's filing is due.

Entities without a filing requirement, like municipalities, also can receive an automatic six-month extension of time to file Form 990-T by using Form 8868, Application for Extension of Time To File an Exempt Organization Return to request an extension. An organization will only be allowed an extension of 6 months for a return for a tax year.

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Step 4: Obtain a pre-filing registration number from the IRS before your tax return is due.

The IRS uses an online portal for the pre-filing registration process. The IRS recommends filing for a pre-registration number at least 120 days (~4 months) before the due date of the municipality's elective pay return.

First-time users of the portal will need to establish an account. The authorized representative and anyone else who will access the municipality's account must have or create an ID.me account. ID.me is a digital identity network that allows individuals to securely provide their identity online. Be sure to retain the pre-filing registration account access information as part of the municipality's files, but do not retain the individual's ID.me account information. The ID.me account belongs to the individual, not the municipality. If the portal allows the municipality to include two authorized representatives for the account, we encourage you to do this to retain access when personnel change.

After securing an ID.me account, the authorized representative of the municipality registers with the IRS for a Clean Energy Account. This results in receiving a registration number for the project. The municipality uses the registration number to file its elective pay tax return. The applicable credit property should be placed in service prior to submitting a pre-filing registration.

When setting up a Clean Energy Account, the municipality designates a *Clean Energy Officer*. This is the person who will have access to all the information submitted to the IRS. This person is the sole person who can add other users

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to the account. This person also is the person the IRS contacts with questions. Using a municipally-designated email address, rather than a personal email address, helps the municipality retain its public records related to the registration.

During the pre-registration filing process, the municipality will need to provide information about itself, the credits it wants to earn, and the eligible clean energy project. The National League of Cities' publication, *5 steps Toward Successfully Filing for the IRA Elective Pay Provision for Local Clean Energy Projects*, includes a list of information you need and provides some lessons learned to help smooth your registration process.

In general, each registration number corresponds to one clean energy property in one tax year. This means that if the municipality purchases an electric vehicle and installs an electric vehicle charging station in the same tax year, it must file for two registration numbers – one for each project.

A registration number is only valid for the taxable year for which it is obtained. If the municipality files for a registration number in one tax year and its project is placed into service in the next tax year, it will need to renew the number. Receipt of a registration number does not guarantee that a project is eligible for a credit. It simply gives the IRS information it needs to process the credit when the municipality files for it.

Q32 through Q40 on the IRS Frequently Asked Questions webpage provides more information about pre-filing registration.

Step 5: File your tax return by the due date, including extensions.

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The municipality will need to provide its registration number and make the elective payment selection on its tax return. The tax return filing will include at least three forms: Form 990-T, Form 3800, and the form(s) for the credit(s) being claimed. Form 990-T is used by tax exempt entities to report unrelated business income and tax liabilities. The municipality files *one* Form 3800 and *one* Form 990-T regardless of the number of clean energy projects it completes. **E-filing the claim is required for tax exempt entities.**

The Lawyers for Good Government (L4GG) Elective Pay & IRA Tax Incentives webpage has resources to guide you through filing for the credit. This has become the go-to information source for local governments. Access is free. Some of the resources available include:

- Annotated tax forms – Learn which forms must be filed, what information goes where on the forms, and which sections of the forms need to be completed. Note: The IRS updates its forms annually. The annotated forms are 2023.
- Elective Pay FAQs – The FAQs are searchable. If you don't find what you need, you can submit a question then watch for the answer on the FAQ page.
- Municipal Bond "Haircuts" – If your municipality used tax-exempt municipal bonds to finance its clean energy project, the value of the credit will be reduced because the municipality already has taken advantage of a tax exemption through the bond.

The value of your elective pay filing cannot exceed the eligible cost of your project, minus any grants and donations received.

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Find more filing tips for tax-exempt organizations at Charities and nonprofits | Internal Revenue Service.

Note: According to the National League of Cities, the IRS encourages municipalities to eFile (think TurboTax and QuickBooks), but providers of the eFiling platform for elective payment are limited, and so filing via paper to the 990-T repository address provided on the IRS website may be necessary. Vermont municipalities have reported successfully Elective Pay filings using Tax1099 and Tax990; both are for-fee platforms. VLCT is not endorsing any of the e-filing providers mentioned, only providing information.

Step 6: Receive your elective payment.

In general, payments occur after a return is successfully processed. Statutorily, organizations aren't entitled to the elective payment until the due date of the return (a.k.a. deadline to file). Payments typically are issued within 45 days after that date. In some cases, payment may take less or more time. Payments are sent either electronically or via mail.

Entities that make an elective payment election could potentially be selected for an IRS audit. Be sure to retain all documentation as noted above.

Elective pay payments are a tax refund. As a refund, they are considered as local funds upon receipt and are not reported on the municipality's Subrecipient Annual Report.

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Sample Timeline for Claiming Elective Pay for Most Organizations with a Calendar Tax Year

Any time in 2024	»	Late 2024 or early 2025, before tax return is due	»	By May 15, 2025 (for most tax-exempt and governmental entities)	»	After return is processed
Clean energy project is placed in service		Pre-register with IRS		Deadline to file tax return (if you don't file for an extension)		Receive elective payment from the IRS

This example timeline is for projects that were placed into service in 2024.

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) was signed into law, significantly reshaping the landscape of federal energy tax credits. Several provisions in the Act directly affect local governments and municipal energy initiatives. See VLCT's web resource, Key Changes to Tax Incentives for Municipal Energy Projects, for key changes, deadlines, and eligibility modifications relevant to municipalities.

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Have Additional Questions?

To learn more about elective pay and how to claim a tax credit for a municipal project, visit:

- Detailed Overview of Elective Pay Credit - Lawyers for Good Government – This recording from the Vermont Bond Bank's 2024 Capital Planning Forum provides more detail about elective pay, the filing process, and documentation.
- 5 Steps Toward Successfully Filing for the IRA Elective Pay Provision for Local Clean Energy Projects – National League of Cities and GFOA - Summarizes the key steps in the filing process and provides information that may help you approach and eventually successfully execute your municipality's Inflation Reduction Act elective payment.
- Elective Pay & IRA Tax Incentives - Lawyers for Good Government – Fact sheets for first-time tax credit claimants, annotated forms that help you understand and complete IRS forms, webinars, and searchable Frequently Asked Questions. You can submit questions that L4GG will answer through its Frequently Asked Questions.
- Elective pay and transferability - Internal Revenue Service – Main IRS webpage about elective pay for official information.
- Elective pay and transferability frequently asked questions - Internal Revenue Service – Good for exploring the most common questions about elective pay and pre-filing registration.

Disclaimer: This summary provides information about tax credits and deductions available to municipalities through the Inflation Reduction Act of 2022. Information was drawn from information previously posted on the Biden Administration

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whitehouse.gov Direct Pay Through the Inflation Reduction Act webpage, the IRS's Elective pay and transferability frequently asked questions webpage, and Lawyers for Good Government's Elective Pay & IRA Tax Incentives webpage. Links to sites offered in this document are provided to assist municipalities. The inclusion of a link does not imply endorsement or approval of the linked site. The content of this document does not constitute legal or other professional advice. Municipalities are advised to consult tax, legal and other professionals regarding use of these credits. If a municipality intends to use elective pay for a clean energy project, the municipality is advised to monitor potential Congressional changes before proceeding with project development.

Disclaimer: This resource was created by Municipal Operations Support (MOS) staff of non-legal professionals with expertise of the subject matter. It is only intended to provide information and does **NOT** constitute legal advice. Readers with legal questions are encouraged to contact an attorney. The use or downloading of this resource does **NOT** create an attorney-client relationship and will not be treated in a confidential manner. Non-legal questions about this resource can be directed to MOS staff at mos@vlct.org.

Publication Date
08/27/2025

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