Grants and Elective Pay:

Understanding the Rules

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Many municipalities are using MERP (Municipal Energy Resilience Program) grants to help pay for solar and geothermal clean energy projects. These projects also may be eligible for a federal program called Elective Pay. Elective Pay allows certain tax-exempt organizations, like municipalities, to receive clean energy tax credits as a payment (a refund) from the IRS.

Because both programs can provide financial support, it is important to understand how they work together.

The Key Rule: No Double Payment

Here is the most important thing to know: **You cannot get paid twice for the same cost.**

If grant funds pay for part or all of a project, those funds affect the amount of the tax credit that can be claimed.

The impact depends on the amount of the grant in relation to the project's full cost. An elective pay refund cannot be greater than the total project cost minus any grants, donations, and forgivable loans.

Simple Examples

Example 1: Full Grant Funding

- Project cost: $100,000
- Grant pays: $100,000
    - Result: You cannot claim an elective pay credit on this $100,000.

Example 2: Partial Grant Funding

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- Project cost: $100,000
- Grant pays: $60,000
    - You pay: $40,000
    - Result: You would be able to claim the full elective pay refund of 30% of total project cost ($30,000), if all elective pay rules are met.

Example 3: Partial Grant Funding

- Project cost: $100,000
- Grant pays: $80,000
- You pay: $20,000
- Result: You would be able to claim only a portion of the full elective pay refund ($20,000) as elective pay, if all elective pay rules are met.

Why This Rule Exists

This rule, known as "no excess benefit" keeps funding fair. It makes sure:

- Public funds are used wisely.
- Projects are not paid for twice.
- More communities can benefit from funding.

What This Means for Your Project

Before you apply for elective pay, you should:

- Know how your project is funded.
- Separate grant-funded costs from your own costs. (Track the costs MERP paid versus the costs that elective pay and the municipality paid.)
- Only claim credits on eligible costs.

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Careful planning helps you get the right amount of funding.

Key Takeaways

- Elective pay can return money to your community.
- Grants lower your project cost.
- You cannot claim elective pay on costs fully covered by a grant.
- You may claim credits on the overall project costs, but you can only claim up to the amount that wasn't paid by grants

Plan Ahead

Before a project begins, talk with your finance team, grant administrator, and tax advisor about how grants may affect Elective Pay eligibility and credit calculations.

Planning ahead can help your community avoid surprises and make the most of available funding opportunities.

Publication Date
06/16/2026

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