Elective Pay Resource Center

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The federal Inflation Reduction Act (IRA) of 2022 opened federal tax credits and incentives to municipalities and other tax-exempt entities through a mechanism known as "Elective Pay". Eligible local governments may receive the value of certain federal tax credits as a refund payment from the Internal Revenue Service (IRS), helping offset the cost of qualified energy projects, such as solar arrays, energy storage, geothermal projects, and others.

For Vermont municipalities, Elective Pay can help make investments in clean energy, energy efficiency, vehicle electrification, and other eligible projects more affordable, making Elective Pay an important funding tool to include in your planning process.

Because Elective Pay is tied to federal tax credits, the rules, eligibility requirements, documentation standards, and filing procedures can be complex. Municipal officials often need to understand not only whether a project qualifies, but also how to meet federal requirements throughout project planning, procurement, construction, and reporting.

This Resource Center brings together VLCT guidance and articles to help municipalities:

- Understand how Elective Pay works.
- Identify projects that may qualify for federal tax credits.
- Understand prevailing wage, apprenticeship, and other program requirements.
- Learn about changes that have occurred since 2025.
- Learn about pre-registration, filing, and compliance requirements.

The information provided here is intended to support municipal decision-making and project planning. Because federal guidance may change and each project presents unique circumstances, municipalities should consult current IRS guidance and seek professional tax, legal, or financial advice when appropriate.

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Explore the resources below to learn how Elective Pay may help your municipality advance energy projects while reducing local costs.

What are the tax incentives municipalities can use for clean energy projects?

Link: Tax Incentives Municipalities Can Use to Further Their Energy Goals | Vermont League of Cities and Towns

This webpage describes:

- available tax credits,
- what municipalities can do to increase the amount they can claim, and
- details to know before launching a project.

What changes were made in 2025?

Link: Key Changes to Tax Incentives for Municipal Energy Projects | Vermont League of Cities and Towns

This webpage describes:

- changes affecting municipal projects, and
- action steps municipal officials can take.

How has timing changed for project construction?

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Link: IRS Tightens Timeline for Energy Tax Incentive Eligibility: What Municipal Leaders Need to Know | Vermont League of Cities and Towns

This webpage describes:

- the new IRS definition for "Beginning of Construction",
- the change from "continuous efforts" to "continuous construction",
- what projects the changes apply to, and
- planning considerations that can help municipalities retain eligibilty for the credits.

How do I claim a clean energy tax refund?

Link: Claiming Tax Incentives for Your Clean Energy Project | Vermont League of Cities and Towns

The webpage describes:

- successful examples of Vermont municipalities using the credit,
- step-by-step actions to take to claim a credit,
- a sample timeline for claiming a credit, and
- resources available to help municipalities claim their refund.

How do grants affect an Elective Pay refund?

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Link: Grants and Elective Pay: Understanding the Rules | Vermont League of Cities and Towns

This webpage:

- describes how grants affect your elective pay refund claim,
- provides simple examples, and
- describes why the rule exists and what it means for projects.

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