

# **Claiming Tax Incentives for Your Clean Energy Project**



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.

## 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.

## 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.



## 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 determine the corresponding tax year.

Municipalities only can use elective pay after they have earned 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](#). An organization will only be allowed an extension of 6 months for a return for a tax year.

## **Step 4: Complete pre-filing registration with the IRS before your tax return is due.**

An authorized representative of the municipality must register the municipality with the IRS and receive a registration number for the project before the



municipality can file a tax return and receive payment. The registration number is included in the municipality's tax return as part of making the elective pay election. The applicable credit property should be placed in service prior to submitting a pre-filing registration.

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 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 in case of personnel changes.

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. 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: Once you receive a valid registration number, file your tax return by the due date, including extensions.**

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.

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.

Find more filing tips for tax-exempt organizations at [Charities and nonprofits | Internal Revenue Service](#).

## **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. 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](#).

## **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
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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

Elective pay is available in future years beyond 2024. This is an example timeline for projects that were placed into service in 2024.

## Have Additional Questions?

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

- [Tax Incentives Municipalities Can Use to Further Their Energy Goals - Vermont League of Cities and Towns](#) – Basic overview of available credits.
- [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.
- [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.
- [Catalyzing Local Clean Energy – A Roadmap for Maximizing Inflation Reduction Act Opportunities and Community Benefits – National League of Cities](#) – The tables in this 55-page publication are worth a glance if you have questions.

**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 [whitehouse.gov](https://www.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.

Publication Date

02/17/2025

