



# Intro to clean energy tax credits

## The background

Most people are familiar with the Inflation Reduction Act, which passed Congress in 2022 and marks the largest action by any government in history to combat climate change. What many do not know, however, is that the IRA presents an opportunity for US companies across industries and of all sizes and types to support the energy transition while generating a positive return on investment. Learn more about how this opportunity is transforming the US clean energy economy.



## What is clean energy?

The IRA dramatically extended the kinds of projects that qualify for clean energy tax credits, including:

- Wind
- Solar
- EV Charging
- Carbon Capture
- Hydrogen
- Advanced manufacturing
- Nuclear
- Bioenergy
- Commercial & industrial solar
- Battery storage
- Industrial decarbonization
- Fuel cells
- ... and more

Projects are also incentivized for using:

- Union or equivalent workers
- Domestically produced goods
- Investments in underserved communities

## How important are tax credits to clean energy projects?

### Typical capital stack

Tax credits (20-40%)

Debt and equity (60-80%)

# \$303 billion

Energy transition investment in the US, 2023 (BNEF)

Tax credits typically provide between 20-40% of a clean energy project's financing requirements. The remaining capital costs are financed with a combination of debt and equity.

Monetizing tax credits is a critical source of capital for most clean energy projects, who often do not have sufficient tax liabilities to take the credits themselves.

Because of the significant contribution by tax credits, projects can be built more cheaply and at lower costs to consumers.

# How does a tax credit investment work?

## First

a corporate taxpayer identifies credits for sale that meet their specifications (think: timing, quantity of credits for sale, and attractive risk profile).

## Second

the company makes an expression of interest to the owner of the tax credits.

## Third

once the parties reach a general alignment, they work towards executing a tax credit transfer agreement.

**Note: companies that file quarterly tax returns are able to count credits that they intend to purchase on their estimated returns.**



## What do tax credits cost?

Credits typically sell at a discount to face value, depending upon a number of factors, including the size of the deal, credit type, technology type, credit quality of the seller, and more.

92-94 cents was the average credit price range in 2023

Smaller credits, less creditworthy developer

\$0.85

Larger deals, large or well-funded developer

\$0.92

\$0.94

\$0.96

This yielded a return on investment (ROI) of between **6-8%**. Buyer's Internal Rate of Return can be much higher — often **25%-50%** — making tax credit purchases an investment in sustainability that also drives ROI.

## Four fast facts:



Sellers typically provide insurance or a parent guaranty to indemnify buyers against risks.



Insurance (as well as the cost of due diligence) are often covered by the credit seller.



Tax credits are generated only after a project has been placed in service, so the buyer generally has no project risk.



Net proceeds on the transaction (the difference between the face value of the credits and the amount paid for them) are not subject to federal taxes.