Inflation Reduction Act:
Tax Credit Monetization Analysis

August 2022

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Methodology & Key Assumptions

The recent passing of H.R.5376, the Inflation Reduction Act (“IRA”), has extended the Investment Tax Credit (“ITC”) for solar as well as reinstated the Production Tax Credit (“PTC”) for solar through at least some time in the early 2030s. This has led many developers and investors to ask which credit is the better choice for their project. They are also asking whether tax equity (“Tax Equity” or “TE”) is still needed as a capital source to efficiently monetize a project’s tax credits. The new legislation now offers developers and investors an option to partake in a transfer for credits (“Transfer”). CohnReznick Capital (“CRC”) analyzed these two different aspects of the new legislation to help guide participants who are exploring their options on tax credit monetization.

Methodology:

- For both analyses, it is assumed that project net cash flow, along with any tax credit monetization option, will support the project’s build cost. Thus, cash flow is not a critical element for determining which credit monetization option to elect.
- For comparing TE options for Solar PTC vs. ITC, the analysis evaluates a project’s total cost ($/Wdc) against net capacity factor (NCF %) to demonstrate how a production-based incentive like the PTC compares to a cost-based incentive like the ITC.
- For comparing Tax Equity ITC vs. Transfer ITC, transaction fees were scaled to reflect the complexity that follows as a project’s size increases. However, Transfer is assumed to have significantly lower fees than Tax Equity.
- While it’s also a feasible option, Transfer PTC wasn’t analyzed due to the lower probability of its use.

Key Assumptions:

- Tax credit monetization value equals the net present value at 7% of the investor’s tax credit and depreciation benefits, less developer’s taxable gain on Fair Market Value (FMV) step up, less transaction fees.
- Tax Equity investors are assumed to receive 99% of the tax credits and losses (up to the Investor’s Capital Account).
- Transfer investors are assumed to receive 100% of the tax credits and none of the depreciation.
- For Tax Equity, 12-yr straight-line depreciation was used to manage TE’s deficit restoration obligation (DRO).
- For the Tax Equity PTC, no step up in value is assumed in order to manage TE’s DRO.
- For Tax Equity ITC, a 20% step up in value is assumed.
- For Transfer ITC, no FMV step up in value is assumed in the case presented.
- Tax Equity transaction fees scale from $225k at 1.35 MWdc to $4M at 675 MWdc. Transfer transaction fees scale from $75k at 1.35 MWdc to $1M at 675 MWdc.
- Build cost was fixed at $1.50/W for evaluating the impact of the project’s size for Tax Equity vs. Transfer.

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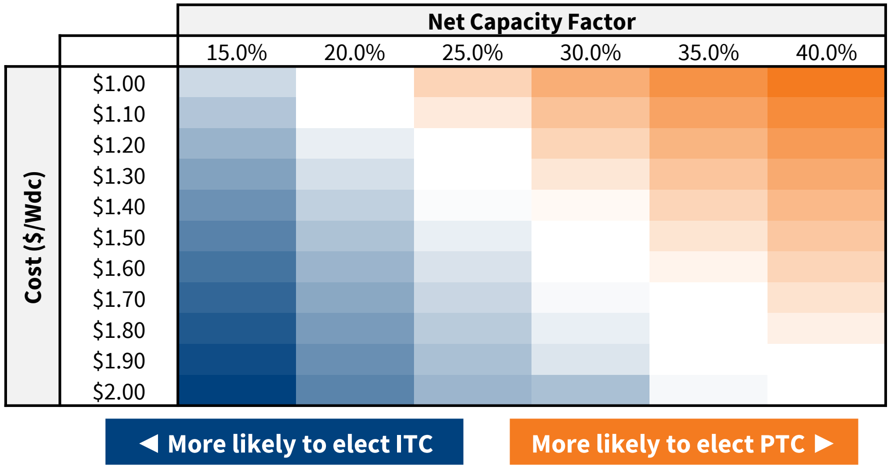
Solar PTC vs. ITC Tax Equity *(Gain on Sale)*

NCF and Build Cost are key determinants for choosing between PTC and ITC. The PTC may result in larger credit value for projects with higher production output relative to build cost.

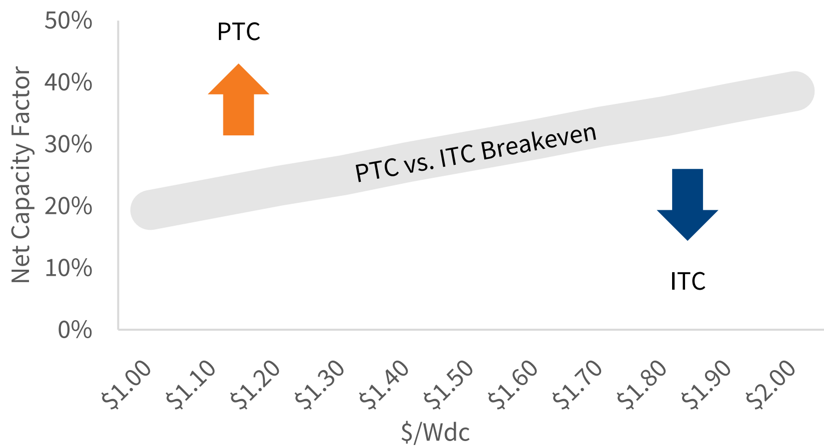
Key Analysis Points and Other Considerations

- Solar projects with an NCF greater than 25% and build cost less than $1.50/Wdc may benefit from choosing the PTC over ITC Tax Equity.
- Projects close to the break-even line should conduct detailed modeling to determine which credit provides the more optimal results.
- Project-specific details may drive stakeholders to elect different credit options for similar projects.
- The ITC is determined upfront and may give investors comfort for tax planning and exit timing.
- The PTC Tax Equity structure may result in more efficient depreciation monetization (~2x) from a larger TE starting capital account and no basis reduction.
- Tax Equity investors may prefer the economic and accounting profile of one credit option over the other.
- PTC Tax Equity invests in a single stage with their investment coming only after a project's full completion, while ITC Tax Equity is often funded in two installments.
- Gain on sale assumes a tax liability from the developer margin.

Solar PTC vs. ITC Comparison Chart



Solar PTC vs. ITC Breakeven Line



Sources: CohnReznick Capital data based on proprietary data and internal models. August 2022

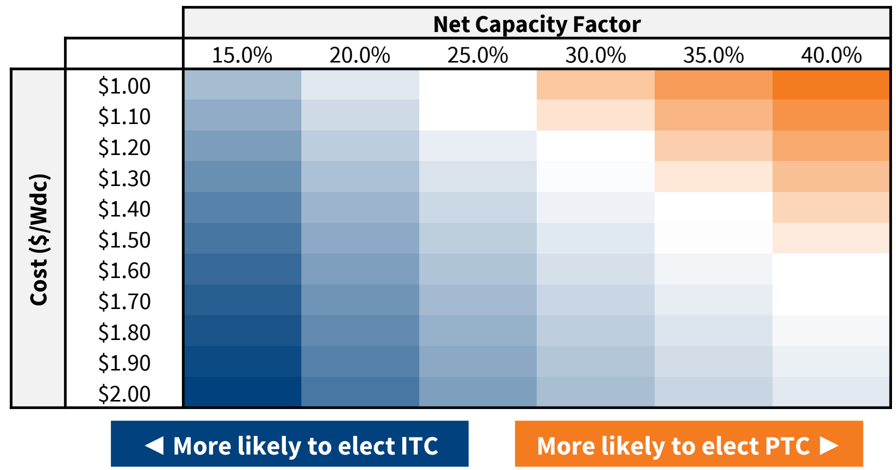
Solar PTC vs. ITC Tax Equity (*No Gain on Sale*)

With no gain on sale, developer has other activities that offset gain on sale from a tax liability perspective. This results in the ITC becoming more attractive than with a gain on sale.

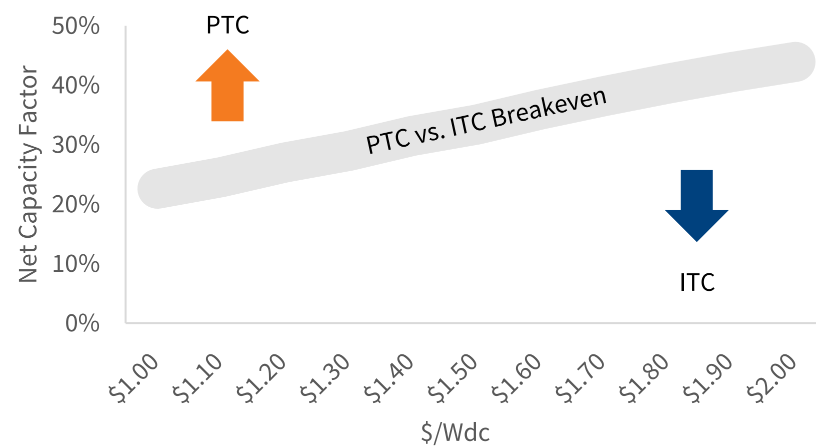
Key Analysis Points and Other Considerations

- Solar projects with an NCF greater than 30% and build cost less than $1.35/Wdc may benefit from choosing the PTC over ITC Tax Equity.
- Projects close to the break-even line should conduct detailed modeling to determine which credit provides the more optimal results.
- Project-specific details may drive stakeholders to elect different credit options for similar projects.
- The ITC is determined upfront and may give investors comfort for tax planning and exit timing.
- The PTC Tax Equity structure may result in more efficient depreciation monetization (~2x) from a larger TE starting capital account and no basis reduction.
- Tax Equity investors may prefer the economic and accounting profile of one credit option over the other.
- PTC Tax Equity invests in a single stage with their investment coming only after a project's full completion, while ITC Tax Equity is often funded in two installments.

Solar PTC vs. ITC Comparison Chart



Solar PTC vs. ITC Breakeven Line



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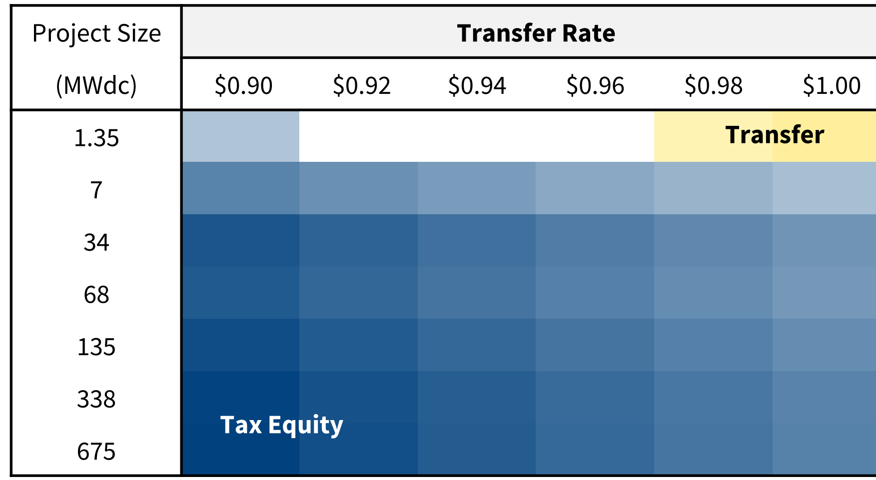
Solar ITC Tax Equity vs. Transfer without FMV Step Up

Project capacity and market rate for ITC transfer of credits are the key factors between Tax Equity and Transfer.

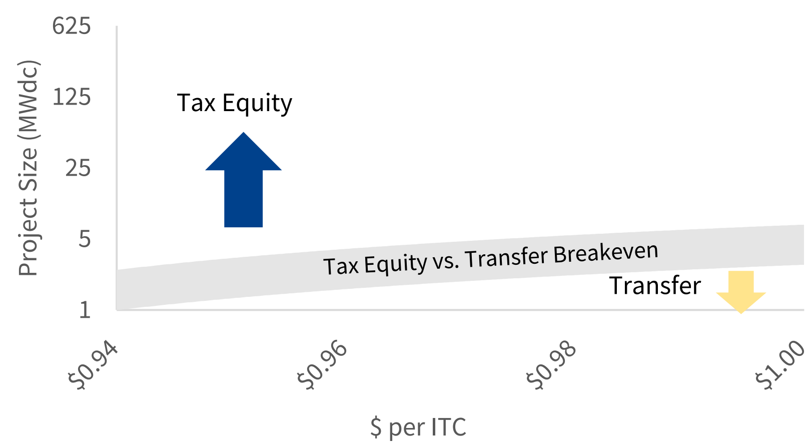
Key Analysis Points and Other Considerations

- For small-scale projects (< 7 MWdc), Transfer ITC may result in greater tax credit monetization.
- As Transfer Rate increases, the relative value against the Tax Equity alternative may increase.
- For large-scale projects, incremental depreciation value may offset and surpass the incremental cost of transaction fees. Tax Equity value may then surpass Transfer value.
- Projects close to the break-even line should conduct detailed modeling to determine which credit provides the more optimal results.
- Project-specific details may drive stakeholders to elect different credit options for similar projects.
- For Transfer ITC, no FMV step up in value is assumed in the case presented.
- If developers can achieve a step up in FMV in the transfer scenario, the economics become slightly more attractive than currently depicted.

Solar Tax Equity vs. Transfer Comparison Chart



Solar Tax Equity vs. Transfer Breakeven Line



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About CohnReznick Capital

Renewable Energy: 250 Transactions, $37.3Bn in Value

Renewables Expertise		M&A Advisory	Capital Raising		Special Situations
71.8GW Solar Transactions	**27.6GW** Wind Transactions	**89.4 GW** Total M&A	**$5.9B** Debt Financing	**$10.2B** Tax Equity	**65** Transactions Completed

HIGHLY EXPERIENCED PROFESSIONALS

								
	Conor McKenna	**Nick Knapp**	**Britta von Oesen**	**Gary Durden**	**Manish Hebbar**	**Jeff Manning**	**Michael Tatarsky**	**Michael Yurkerwich**
	PARTNER & SR. MANAGING DIRECTOR	PARTNER & SR. MANAGING DIRECTOR	PARTNER & MANAGING DIRECTOR	PARTNER & MANAGING DIRECTOR	MANAGING DIRECTOR	MANAGING DIRECTOR	MANAGING DIRECTOR	MANAGING DIRECTOR
	NEW YORK	NEW YORK	SAN FRANCISCO	NEW YORK	NEW YORK	BALTIMORE	NEW YORK	WESTPORT
EXPERIENCE	10+ years 125+ renewable energy project finance, asset sale, and M&A transactions	16+ years 80+ renewable energy project finance and M&A transactions	15+ years $4bn+ raised for utility-scale and distributed generation solar assets	15+ years 5GW of renewable energy projects for solar, onshore wind, and offshore wind	15+ years 55+ transactions of more than $11bn and 9GW capacity	40 years 150+ transactions including M&A, private placements, and corporate recovery	10+ years Over $3bn raised across 10GW+ of renewable energy projects	10+ years 20+ renewable energy project finance and M&A transactions
EXPERTISE	Corporate capital raising, structuring, M&A, and financing of tax equity and debt investments for wind, residential, commercial, and residential solar, biomass and CSP	Platform and project level buy-side and sell-side M&A Utility scale wind and solar; DG solar and combined energy solutions; residential solar	Utility scale solar and wind, and distributed generation solar M&A transactions Private placements and debt	Equity investments and structured finance for utility scale and C&I wind and solar projects and distributed generation	Buy-side advisory and full-stack capital raising Complex modeling and structuring	Operating, restructuring, and bankruptcy advising, loan workout	Corporate and asset M&A renewable energy platforms and projects Tax equity structuring, placement and execution for ITC and PTC deals	Buy-side and sell-side M&A, Multi-tier partnership structures Carbon capture initiatives and Section 45Q industry

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CRC Competitive Advantage

Highly Experienced Industry Professionals

- Led by industry professionals with over 130 years of combined experience.
- Deep industry expertise, including prior experience at Bank of America Merrill Lynch, Citi, Credit Suisse, GE Energy Financial Services, Lazard, Lehman Brothers, Deutsche Bank and Raymond James.
- Track record of providing advisory services across the renewable energy sector, including platform capital raising and M&A, project finance, tax equity, project / portfolio M&A, and restructuring.

Relevant Transaction Experience

- Directly relevant track record in successfully closing 10+ development platform transactions, including 6 solar platform transactions in 2021.
- Recent experience closing platform transactions providing valuable real-time market knowledge.
- Extensive industry expertise allows CRC to evaluate and address the structuring, tax, and market implications of any transaction in the solar market.

Deep Investor Relationships

- Long-term relationships with leading financial and strategic investors, including private equity and debt funds, infrastructure funds, utilities, IPPs, pension funds, and insurance funds.
- CRC's strong network and experience serving as a trusted advisor to qualified potential investors allow CRC to maintain discrete rapport with investors and confidentially assess quality of interest.

Proven Deal Execution

- Proven ability to deliver outcomes beneficial to the client across 250+ transactions and $37Bn+ in transaction value.
- Disciplined and hands-on approach to transaction execution coupled with extensive experience in structuring and negotiating complex transactions to achieve optimal results.
- Recognized as a leading renewable energy advisory firm by SparkSpread and BloombergNEF as well as a respected long-term partner for our clients.[1]

(1) SparkSpread Inframation League Tables and BloombergNEF League Tables

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