





Traps for the unwary in monetizing Inflation Reduction Act credits

Thursday, Nov. 9, 2023

With you today



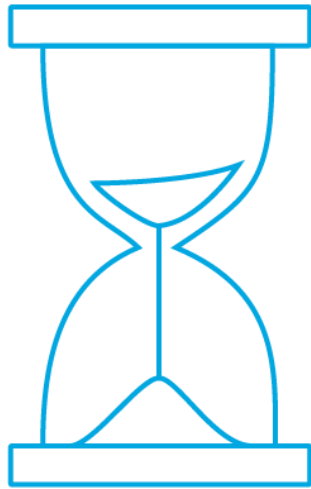
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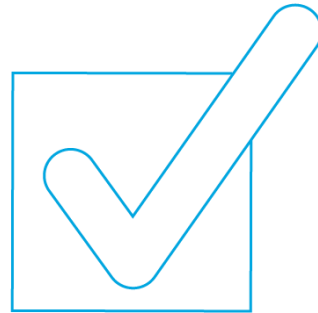


- Level setting
- Anticipated guidance
- Challenges with monetizing credits
- Key takeaways

Learning objectives

By the end of this presentation, participants will be able to:

1. Evaluate the risks and the need for due diligence to sell a credit
2. Evaluate the steps to effectively transfer the credit through new IRS processes
3. Assess opportunities to maximize the value of a credit in a transaction



Inflation Reduction Act of 2022: clean energy road map

Subtitle D Energy Security

Clean electricity and reducing carbon emissions

Extending/modifying existing credits

- 45 – Production tax credit (PTC)
- 48 – Energy credit (ITC)
- 45Q – Carbon capture

New credits

- 48 – Increase ITC for solar in low-income communities
- 45U – Zero emission nuclear power PTC

Clean fuels

Extending/modifying existing credits

- 40, 40A, 6426, 6427 – Biodiesel, alternative fuels
- 40(b)(6) – Second generation biofuel

New credits

- 40B/6426/6427 – Sustainable aviation fuel blender credit
- 45V – PTC – Clean hydrogen

Manufacturing and energy security

Extending/modifying existing credits

- 48C – Advanced energy project credit – new credit allocation

New credits

- 45X – Advanced manufacturing PTC

Clean energy incentives for individuals

Extending/modifying existing credits

- 25C – Nonbusiness energy (extend/increase/modify)
- 25D – Residential energy efficient property
- 179D – Energy efficient commercial buildings
- 45L – New energy efficient homes

Clean vehicles

Extending/modifying existing credits

- 30C – Alternative fuel refueling property
- 30D – Clean vehicles credit

New credits

- 25E – Used clean vehicles
- 45W – Commercial vehicles

Clean electricity and transportation

Below new incentives generally effective Jan. 1, 2025

- 45Y – Clean electricity PTC
- 48E – Clean electricity ITC
- 45Z – Clean fuel PTC
- Cost recovery for qualified facilities, property and storage





Investment tax credit (ITC)

- One-time credit in year qualifying energy property placed in service
- Base credit rate is generally 6% of qualifying costs
- Recapture provisions
- 50% reduction in basis generally

Production tax credit (PTC)

- Annual credit generally based on electricity produced
- Credit rate is cents per kilowatt hour

Bonus credit rates: Five times increase if IRA labor provisions met

- Prevailing wage
- Apprenticeship

Credit adders include:

- Domestic content
- Energy community

IRA monetization

Many credits can now be sold for cash to unrelated parties

New concept for federal energy credits

Effective in 2023

Huge opportunity for middle market companies



Credits eligible for transferability

Credit for alternative fuel vehicle refueling property allowed under section 30C (e.g., EV chargers)

Credit for qualified commercial vehicles determined under section 45W

Energy credit determined under section 48

Clean electricity investment credit determined under section 48E

Renewable electricity production credit determined under section 45

Clean electricity production credit determined under section 45Y

Clean fuel production credit determined under section 45Z

Zero-emission nuclear power production credit determined under section 45U

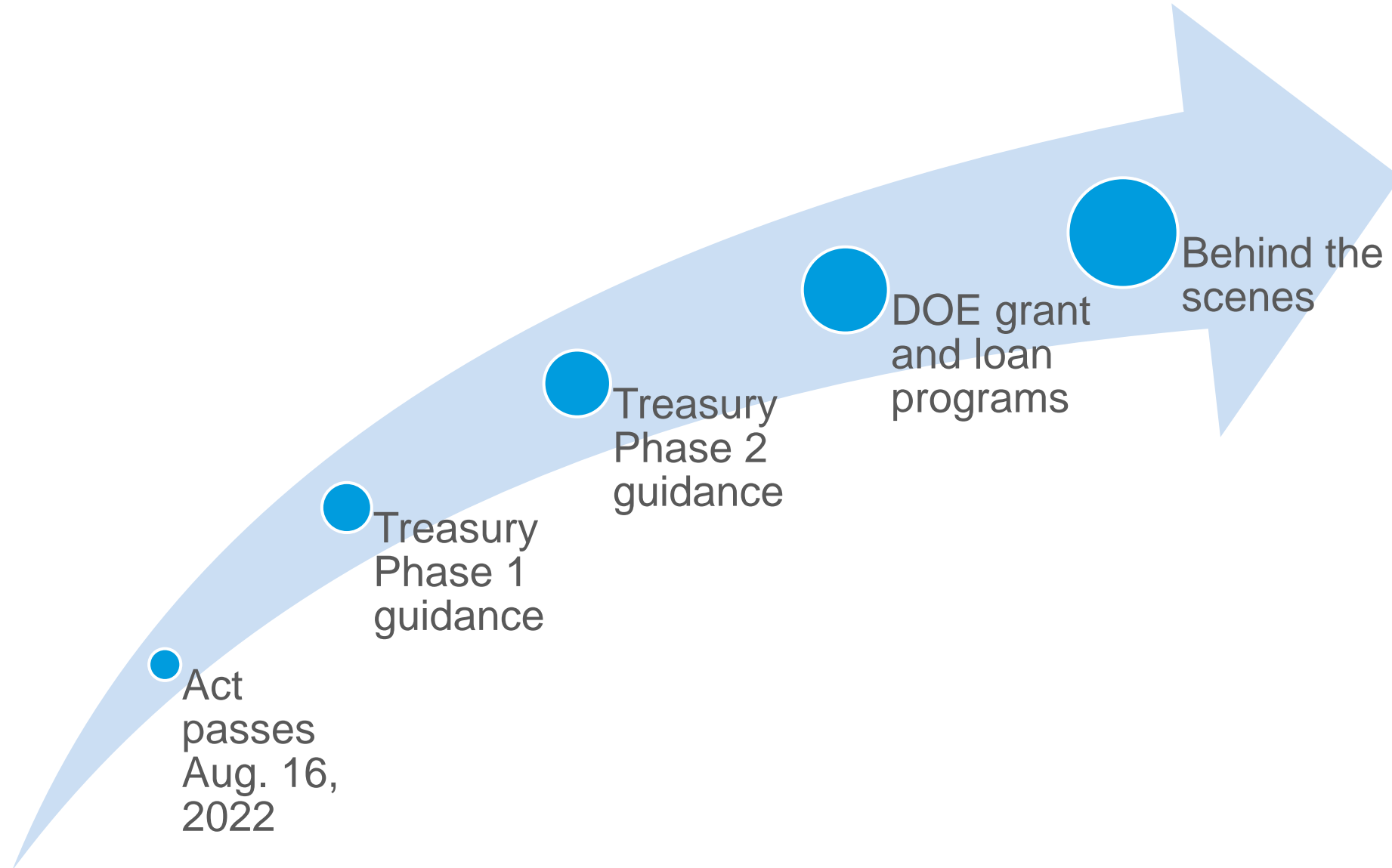
Credit for production of clean hydrogen determined under section 45V

Credit for advanced manufacturing production under section 45X

Credit for carbon oxide sequestration determined under section 45Q

Qualifying advanced energy project credit determined under section 48C

Inflation reduction act: one year later



A satellite with large solar panels is shown in space, orbiting Earth. The satellite is white and gold, with several large, rectangular solar panels extending from it. The Earth is visible in the background, showing a blue sky and white clouds. The text "Credit markets: A brave new world?" is overlaid on the image in a blue font.

Credit markets: A brave new world?

Sellers

Eligible property

Placed in service

Adders

Labor requirements

Buyers

Type of buyer

Recapture events

Penalties

IRS examination

Credit market

Promoters/brokers

Credit market discounts

Contract clauses

Tax insurance

Case study 1: seller's perspective - key considerations

Middle market
developer of
anaerobic
digester
biogas project

Project costs
\$100M

Placing in
service in
2024


No taxable
income

Planning to
sell clean
energy credits
generated



What are the seller's considerations?

Case study 2: buyer's perspective – key considerations



Profitable
manufacturing
portfolio company

Has \$15M to
\$20M in taxable
income

Wants to
purchase clean
energy tax
credits to offset
tax liability

What are the buyer's considerations?

Sellers

Qualification

Quantification

Documentation

Tax insurance

Buyers

Tax projections

Market evaluation

Due diligence

Risk mitigation

With you today



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THANK YOU FOR
YOUR TIME AND
ATTENTION



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