TRANSFERABLE TAX CREDIT PRIMER

FOSS & COMPANY
TAX CREDIT SPECIALISTS
Since 1983

Transferable tax credits enacted through the IRA allow taxpayers to reduce their federal tax liabilities while supporting renewable energy and sustainable technologies.

TYPICAL BUYER	• Corporations with $10mm+ of tax liability.
BENEFITS	• Reduction in tax liability on a dollar-for-dollar basis (vs. a deduction, which reduces taxable income). • Credits can be rolled back 3 years or carried forward 22 years.
PRICING	• Foss & Co. focuses on institutional quality credits, typically priced at $0.92 to $0.97 per $1.00 of tax credit.
ACQUISITION PROCESS	• Credits must be purchased for cash and paid for prior to tax filing. • Credits must be registered with the IRS prior to tax filing. • Upfront diligence and ongoing management is necessary, as credits can be recaptured or disallowed in certain situations.
WHY FOSS & COMPANY?	• 40-year history of excellence in the tax credit industry. • Over $8 billion of tax credits with $0 of recapture or disallowance. • Dozens of recurring Fortune 500 corporate clients.

RISKS

- **Recapture:** Certain events may lead to recapture of tax credits. For example, foreclosure of project-level debt within the 5-year compliance period of an investment tax credit could lead to recapture.
- **Delay in Credit Delivery:** Project construction delays may lead to tax credits being delivered in a later tax year.
- **Disallowance:** A portion of tax credits may be disallowed. For example, a project may not have qualified for an “adder” it claimed.

MITIGANTS

- **Screening and Diligence:** Foss & Company provides institutional quality underwriting, helping to mitigate risk.
- **Seller Guarantees:** Sellers provide guarantees against recapture and disallowance risks. In addition, sellers often owe penalties for late delivery of tax credits.
- **Tax Credit Insurance:** Tax credit insurance policies can be utilized to further mitigate recapture and disallowance risk when necessary.

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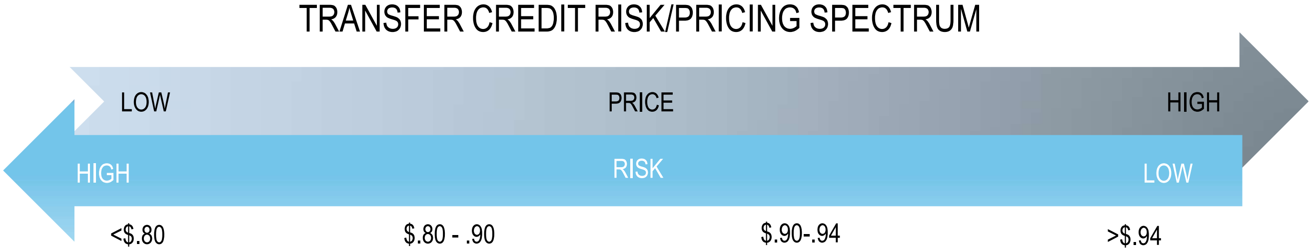
TAX EQUITY	VS	TRANSFERABILITY
▪ Tax credits allocated through partnership		▪ Tax credits purchased through transfer agreement
▪ Accounting implications (e.g. equity method, HLBV/PAM)		▪ Straightforward legal/accounting treatment
▪ Benefits include tax credits, cash, and depreciation		▪ Benefits solely from tax credits

Similar recapture and disallowance risk, but can be mitigated through guaranty and insurance

TRANSFER CREDIT RISK/PRICING SPECTRUM



<$.80	$.80 - .90	$.90-.94	>$.94
New markets, unproven technologies	Less creditworthy sellers, new technologies, short sale timelines	Known technologies, experienced sellers, sub-investment grade guaranty, tax insurance	Investment-grade guaranty

TRANSFER CREDIT PRICING FACTORS

▪ Size of transaction	▪ Technology risk and tax credit type
▪ Timing of purchase	▪ Creditworthiness of guarantor
▪ Tax insurance policy size and coverage*	▪ Recapture risk (e.g. project level debt with no forbearance agreement)
▪ Prevailing wage and apprenticeship exemption	▪ Seasonality (tax credits tend to be more expensive at year end)
▪ Disallowance risk due to disqualification of adders or FMV step up	▪ length of commitment ($0.01 - $0.02 discount for multi-year commitments)
▪ Tax opinion availability*	▪ Legal cost coverage*

** May not be available on small transactions*