Revenue estimate for repeal of transferability (section 6418)

Prepared on behalf of Edison Electric Institute (EEI)

EY Quantitative Economics and Statistics (QUEST) practice

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Shape the future with confidence

Transferability

What is transferability (section 6418)

Credit transfers allow a business to sell its tax credits to another in exchange for cash, at a mutually agreed-upon price. Introduced under the Inflation Reduction Act (IRA) of 2022, this provision increases flexibility by enabling entities without sufficient tax liability to monetize credits they would otherwise be unable to use in the tax year they are generated.

What tax credits are eligible for transferability?

- Energy Credit (48)
- Clean Electricity Investment Credit (48E)
- Renewable Electricity Production Credit (45)
- Clean Electricity Production Credit (45Y)
- Zero-emission Nuclear Power Production Credit (45U)
- Advanced Manufacturing Production Credit (45X)
- Clean Hydrogen Production Credit (45V)
- Clean Fuel Production Credit (45Z)
- Carbon Oxide Sequestration Credit (45Q)
- Credit for Alternative Fuel Vehicle Refueling/Recharging Property (30C)
- Qualified Advanced Energy Project Credit (48C)

Source: Internal Revenue Service (IRS).

What is expected to happen if transferability is repealed?

If transferability is no longer available, eligible taxpayers are expected to monetize tax credits using the following methods, in order of preference:

1. Offset their own federal tax liability, to the extent possible
2. Enter a tax equity partnership, if the tax credit lends itself to tax equity investment structures
3. Use direct pay, if eligible
4. Carry credits forward to future tax years

This analysis models the potential revenue impact of repealing transferability. For each eligible credit, this analysis assessed (1) industry trends in use of credits to offset own federal tax liability, (2) feasibility of monetization via tax equity partnerships, (3) eligibility for direct pay, and (4) industry expectation for credit carryforward periods.

The analysis is based on publicly available data and discussions with tax professionals at companies that regularly claim these credits or that assist companies in claiming these credits.

Revenue estimate for repeal of transferability, 2026 - 2035

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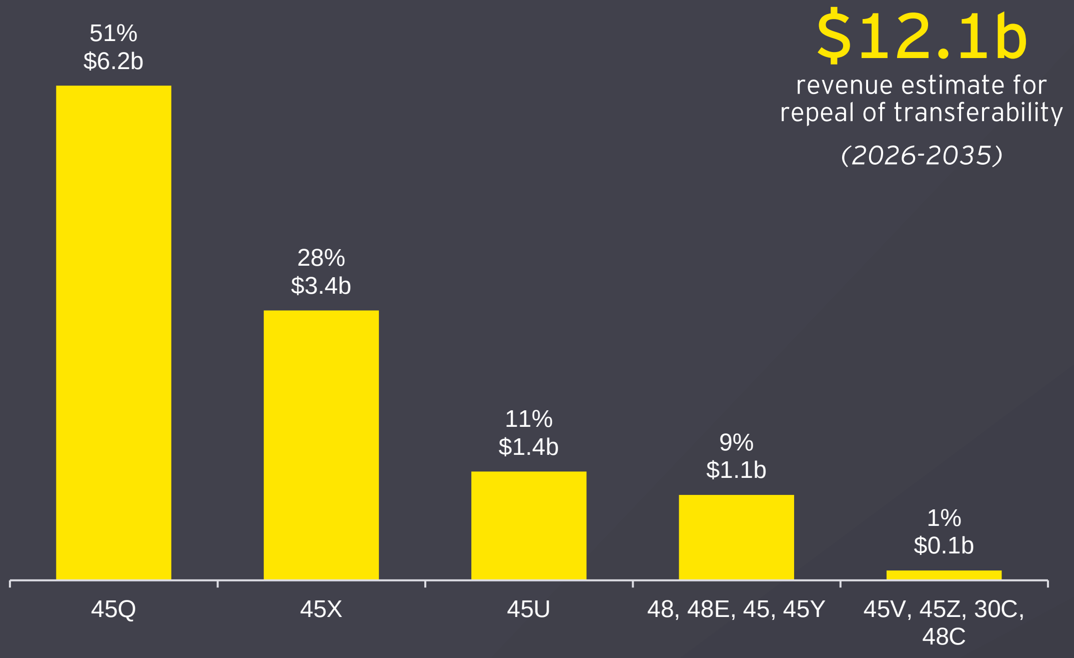
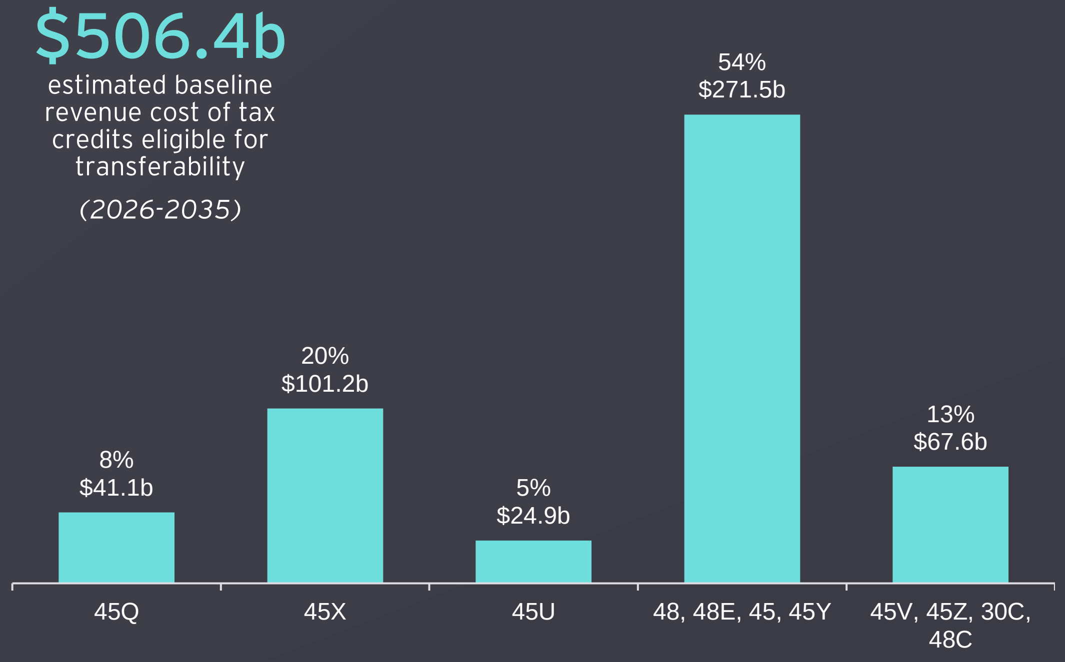


<u>Conventional revenue estimate</u> - The revenue estimate was produced for the 2026-2035 budget window using the conventional JCT revenue scoring methodology. Conventional Joint Committee on Taxation (JCT) revenue estimates incorporate a wide range of behavioral responses but assume the policy change does not impact the overall size of the economy. That is, the revenue estimate is micro-dynamic but macro-static.

The revenue estimate displayed is relative to the baseline cost displayed on the right.

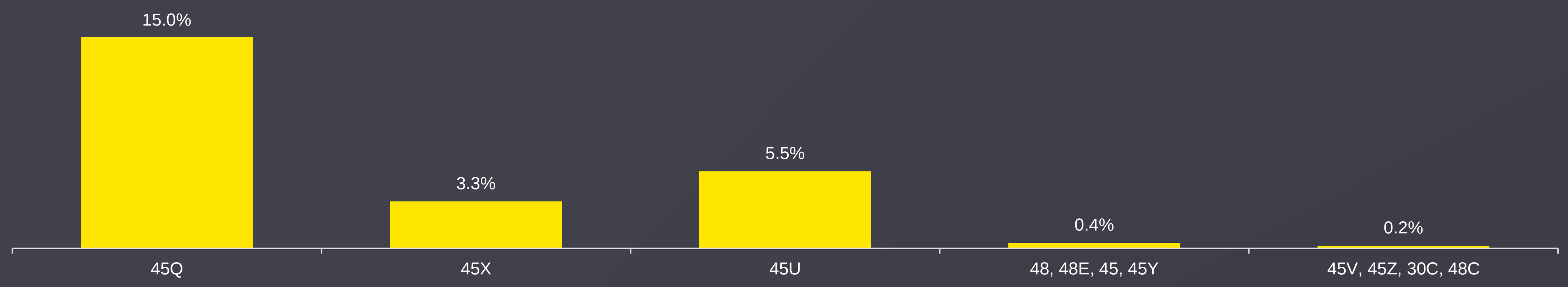
Baseline revenue cost of tax credits eligible for transferability under current law, 2026 - 2035



Note: The baseline revenue cost for all credits eligible for transferability is based on the JCT's publication, "Estimated Revenue Effects of a Proposal to Repeal Certain Energy Items Contained in the Inflation Reduction Act" (May 25, 2023). This publication provides estimates for the 2023-2033 period. This analysis extended these estimates to 2034 and 2035 by imputing values for each credit based on its characteristics, including tax base, duration, sunset year, and credit amount.

Revenue estimates for repeal of transferability, detail

Revenue estimates for repeal of transferability as a share of baseline revenue cost, 2026 - 2035



Key dynamics of the revenue estimate

Delay in monetization

- If transferability is repealed, many eligible taxpayers will no longer be able to monetize tax credits in the year they are generated. Instead, they may have to carry forward unused credits beyond the 10-year budget window. This delay occurs because, (1) not all taxpayers are eligible for direct pay, (2) not all credits can be monetized through tax equity partnerships, and (3) some taxpayers lack sufficient federal tax liability to use the credits themselves.
- The sources used to inform this expected shift in taxpayer behavior, along with its implication on each tax credit include discussions with tax professionals at companies that regularly claim these credits or that assist companies in claiming these credits, as well as data from the 2024 Transferable Tax Credit Market Intelligence Report (Crux Climate), JCT, the Nuclear Energy Institute (NEI), the US Department of Energy (DOE), and the US Energy Information Administration (EIA).

Change in behavior

- Repealing transferability reduces the net present value of the eligible tax credits, which in turn is expected to reduce taxpayer participation in eligible economic activity. As taxpayers shift to other types of economic activity, credit use is expected to decline.
- In this analysis this effect is modeled by estimating the elasticity of eligible investment or production to changes in its effective cost. This is primarily based on data from EIA's Annual Energy Outlook (AEO) 2025 and the National Renewable Energy Laboratory (NREL).