# Transferability Significantly Reduces Electricity Costs and Promotes Efficient Use of Tax Credits

Taxpayers have been monetizing energy credits—or selling tax credits in exchange for cash—since the 1970s.[1] While there are other ways to monetize tax credits, many of the Edison Electric Institute's (EEI's) member electric companies utilize the Internal Revenue Code's transferability provisions (IRC Section 6418), which allow a taxpayer to transfer all or a portion of an eligible tax credit directly to a third-party buyer in exchange for cash.

Electric companies support preserving transferability because it:

- Is a simple, one-time transaction that opens the market to a broader group of investors;
- Maximizes the benefit of tax credits flowing to electricity customers; and
- Promotes fiscal responsibility of government dollars by increasing the efficiency of tax credits.

For example, assume a taxpayer is eligible for an $80,000 tax credit, but only can utilize $30,000 as a reduction of its current federal income tax. If the taxpayer has to wait to use the remaining $50,000 against its own taxes, the value of the credit per the time value of money principle will be reduced. With transferability, the taxpayer may decide to sell the entire $80,000 in a current taxable year or use the $30,000 to offset its current year tax liability and sell the remaining $50,000.

Prior to transferability, tax credits primarily were monetized through complex and expensive financial transactions that required bringing a third party—often a large bank—onto the project as a joint owner to create the "tax equity" transaction.

## Transferability for Tax Credits Significantly Reduces Electricity Bills and Should Be Preserved

State regulators require electric companies to pass the benefits of tax credits through to customers in the form of lower rates. These regulators closely review and can prevent credit transfers if they are not in the best interest of customers. Credit transfers typically are considered economically prudent when electric companies can secure 95-97 cents on the dollar to help lower costs for today's customers, rather than rolling the credits over for future use. EEI member electric companies generally are able to realize 95-97 cents on the dollar when they transfer tax credits, compared to only 85-90 cents on the dollar with tax equity transactions.

Lawmakers on both sides of the aisle have a long history of recognizing the importance of tax benefits to stimulate capital investment to create jobs and to strengthen the U.S. economy. The electric power industry is one of the most capital-intensive industries in the United States, and EEI's member companies are projected to invest more than $200 billion this year to make the energy grid stronger, smarter, more dynamic, and more secure.[2]

[1] *The Energy Credit or Energy Investment Tax Credit (ITC).* Congressional Research Service. https://www.congress.gov/crs-product/IF10479

[2] EEI Financial Data.

Because of the size and scale of the depreciable assets that EEI members build, they often do not have sufficient current tax liability to take advantage of tax credits immediately. Instead, these credits remain on the books for several years to the detriment of customers unless they can be monetized.

## Transferability Reduces Reliance on Big Banks and Promotes Fiscal Responsibility

Some may try to argue that transferability only benefits big banks, but the opposite is true. Transferability expands the pool of taxpayers that are available to monetize tax credits, reducing reliance on big banks that can facilitate tax equity transactions. If transferability were repealed, electric companies once again would rely on big banks to invest in tax equity transactions, ultimately reducing the value of the credit that flows directly through to customers.

Transferability also provides new economic opportunities for commercial customers. Several EEI member electric companies have transferred tax credits to taxpaying customers in their service territories, keeping investment dollars in their local communities. Whether direct credit transfers are made to large banks or local businesses, the investor is *paying* 95-97 cents on the dollar for the credit. This is not a “giveaway” to large banks or to big companies—the buyer and seller must agree to the terms of the transfer, and there is regulatory oversight to ensure that the transfer will benefit customers. The transaction only yields a small amount of savings to the credit buyer, while the seller now can utilize the benefit sooner than it would otherwise be able.

These transactions have significant oversight measures in place. The U.S. Treasury Department and Internal Revenue Service have robust reporting and registration requirements for credit transfers and tax credit buyers undertake significant due diligence before purchasing credits.

## Transferability Simplifies Transactions and Increases Customer Savings

Transferability is consistent with the bipartisan goal of ensuring that tax credits are efficiently encouraging responsible capital investments. By reducing the costs and complexity of transactions and expanding the pool of potential investors, transferability also enables EEI member electric companies to maximize customer savings.

Keeping electricity costs for customers as low as possible in the midst of growing energy demand is a national imperative. Repealing existing transferability provisions would hinder electric companies’ ability to meet customer demand, increase costs for tens of millions of electricity customers, undermine energy projects already underway, and harm short- and long-term economic growth opportunities.

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