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TAX CREDIT SPECIALISTS
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Overview

Once a niche investment approach thought to come at the expense of returns, ESG investing – or strategies that align with a company's environmental, social, and governance values – has grown into a $30 trillion market as of 2019. Issues like energy consumption, greenhouse gas emissions, climate change, resource scarcity, health and safety, diversity and inclusion, and effective board oversight are all having a greater effect on the financial performance of companies and investors have taken notice. The 2019 Global Impact Investing Network (GIIN) Annual Impact Investor Survey results show the increasing scale and maturity of the impact investing industry. This most recent report includes responses from 266 leading impact investing organizations worldwide that manage $239 billion of the more than $502 billion U.S. market.

One major underutilized strategy that could enable companies to significantly boost their ESG performance and mitigate ESG related risks is ***tax credit investments***. By repurposing and redirecting a company's estimated tax payments into qualified tax advantaged investments, companies can achieve triple bottom line results and fulfill their ESG commitments.

> *Speaking to Reuters Events, BNP Paribas states it "has been successfully investing in renewable energy tax credits for years, which has significantly contributed to our ESG goals and objectives."*

Tax Credits Explained

A tax credit is a type of government sponsored tax incentive that can reduce a company's tax liability dollar-for-dollar. The U.S. government uses tax credits to incentivize corporate taxpayers to invest in certain types of projects that produce economic, environmental, or social benefits. For these projects, the tax credit is an important source of capital, but many project developers do not have enough taxable income to take advantage of the tax credits themselves. In such cases, the developer may monetize the tax credit by attracting a "tax equity" investor, usually a corporate tax paying investor partner.

Tax equity is a term that is used to describe a passive equity ownership interest in a qualified project, where an investor receives a return, based not only on cash flow from the project, but also on tax benefits. In such a transaction, a partnership is typically formed among the parties to facilitate the investment and the allocation of tax credits, deductions, and distributions. The specifics of each partnership vary by project, tax credit type, and transaction structure.

In practice, a tax equity investment uses the same dollars that are earmarked to satisfy a company's tax liability. The funds are repurposed and then invested into qualified projects that generate tax credits, such as a solar farm or an affordable housing project. The tax benefits generated from the project flow back to the investor, eliminating a corresponding amount of tax liability. Typically, the investor also receives a cash return generated through earnings from the project.

Corporate and institutional investors inject well over $25 billion per year into the allocated tax credit market. While the amount is significant, it also suggests there are billions of dollars of tax capacity available that could be deployed for ESG impact in addition to financial performance.

> *"Tax credit investments are really about taking responsibility and being intentional with your tax dollars. Instead of wiring estimated tax payments into The General Fund, corporate taxpayers can direct their dollars to worthy projects that match their sustainability goals."*
> *Bryen Alperin, Vice President of Foss & Company's Sustainability Practice*