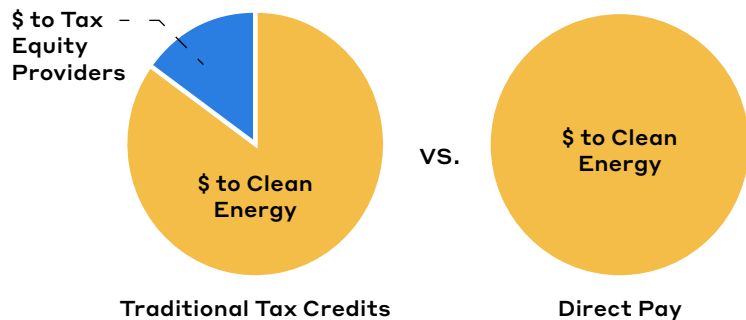


## 3 Reasons Why “Direct Pay” is Crucial for Clean Energy Tax Policy

Clean energy tax credits have historically been the primary mechanism through which the federal government has supported the deployment of clean energy. Clean energy developers usually do not have sufficient tax liability to use the tax credits themselves, hindering them from deploying next generation energy technology. The current workaround is for the developers to go to the tax equity markets, where they trade the tax credits for a lesser amount of cash up front. A better solution would be legislation allowing for a “direct pay” option from the federal government.

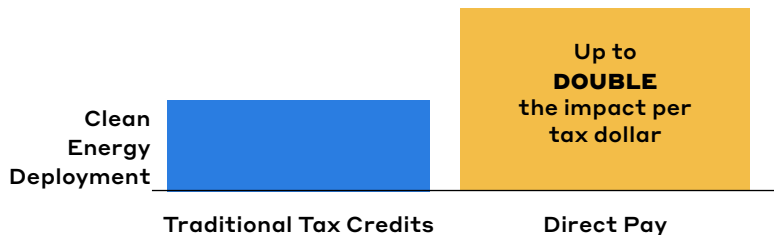
### REASON #1: MORE EFFICIENT

Without direct pay, some of the value of the tax credit goes to the financial markets rather than clean energy development itself. Moreover, the tax equity investors don't add additional due diligence benefit beyond other investors in the capital stack with more expertise in energy finance.



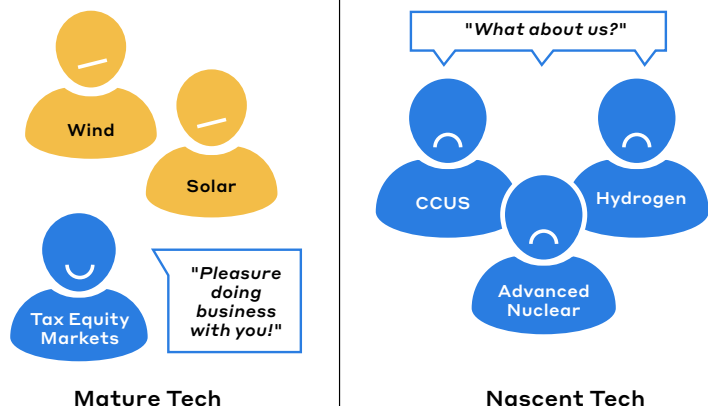
### REASON #2: MORE IMPACTFUL

Studies have shown that direct cash subsidies, which are functionally equivalent to “direct pay,” incentivize up to TWICE the actual deployment of clean infrastructure per federal dollar spent.<sup>1</sup>



### REASON #3: MORE INNOVATION

Tax equity markets have limited capacity and risk appetite.<sup>2</sup> Mature, less-risky technologies with lower capital costs and shorter development schedules (like solar and on-shore wind) will be more attractive tax equity targets than nascent technologies with higher complexity, longer and uncertain development schedules, greater risk, and bigger capital requirements (like hydrogen, advanced nuclear, and carbon capture). This may lead to less innovation as projects compete for a limited amount of tax equity and newer technologies are forced to pay more to access the credits or are unable to use them.



<sup>1</sup> <https://bipartisanpolicy.org/press-release/bpc-study-finds-opportunity-more-efficient-federal-renewable-energy/>

<sup>2</sup> <https://www.projectfinance.law/publications/2021/december/solar-tax-equity-structures>