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Energy

Trump Tax Plan May Hurt Solar Deals, but Not as Much as Feared

By Brian Eckhouse

Tax reform was expected to slow solar deals this year. Instead, they may be accelerating.

President Donald Trump's vow to lower corporate tax rates may erode the supply of tax equity, an esoteric but critical source of clean-energy financing. That prospect has spurred developers to hurry deals, including some that had been planned for next year.

Snapshot

- Lower corporate tax rate seen as threat to tax-equity financing
- An "incentive to close as many deals this year as possible"

"The day after the election, I was worried about whether deals were going to stall," said John Marciano, a Washington-based partner at Akin, Gump, Strauss, Hauer & Feld LLP. "Within two days after that, I had three new terms sheets. A week later, there were three more."

In January, there was considerable chatter that some smaller tax equity investors would wait out the uncertainty over the corporate tax rate. But very few tax equity investors actually retreated, Conor McKenna, a managing director at CohnReznick Capital Markets Securities LLC, said in an interview at Infocast's Solar Power Finance & Investment Summit in San Diego.

"People will realize quickly that they've got an incentive to close as many deals this year as possible," Keith Martin, a Washington-based partner at Chadbourne & Parke LLP, said in an interview at the conference. "Better now than after the rates drop."

Tax Plan

In the run-up to his election, Trump proposed dropping the corporate tax rate to as low as 15 percent from 35 percent. If rates fall, investors would have less need for write-offs through tax-equity investments. In such deals, clean-energy developers sell a portion of their projects' tax credits to companies—often banks—that can apply the credits to their own tax bills.

While the threat of tax reform may not deter tax equity deals—or at least not as much as feared—it may not be a terribly robust year for such transactions. Solar tax equity slumped last year to $5 billion from at least $6.8 billion in 2015 as demand slowed for residential and utility-scale projects. The relative scarcity of utility-scale projects has continued into this year.

"We'll see a busy end of the year," David Burton, a New York-based partner at Mayer Brown LLP, said in an interview at the conference. "But there's a lack of utility-scale projects and uncertainty around tax."

To contact the reporter on this story: Brian Eckhouse in New York at beckhouse@bloomberg.net

To contact the editor responsible for this story: Reed Landberg at landberg@bloomberg.net

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