

VECKTA

Buyers' Guide to Solar Tax Credit Transfers

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onsite energy systems

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Tax credit transfers, enabled by the Inflation Reduction Act (IRA), allow commercial solar project owners to sell their federal Investment Tax Credits (ITC) for cash instead of applying them to their own taxes. This guide breaks down when transfers make sense, what tax credit buyers require, and how to navigate the process successfully.

Key takeaways:

- Typical pricing: 70-90 cents per dollar of credit (after accounting for transaction costs)
- IRS registration can take up to 4 months
- Minimum practical tax credit amount: ~\$250,000 (though lower is possible)
- The decision to sell can be made post-construction, but don't file taxes early
- Approach the market at the right times—buyers enter the market at different times

How Tax Credit Transfers Work

When you install a commercial solar system, you generate ITCs equal to 30% of the eligible project costs. If a project is located in an "energy community" or uses equipment that meets "domestic content" requirements, you can receive an additional 10% for each, bringing the total incentive to 50% of the project costs. Through the IRA's transfer provision, you can sell these credits to corporate or high-net-worth taxpayers at a discount.

Simple example:

- \$1M solar installation
- \$300,000 in tax credits generated (30%)
- Sold at 80 cents = \$240,000 value (includes transaction costs)

Why sell at a discount? Even if you have a tax liability, selling credits can make financial sense because:





1. Solar projects have high upfront costs and generate savings over time
2. If your tax burden isn't large enough to use the full value of the credits in the first year or two, selling them at a discount to offset upfront costs can improve project payback and NPV

The Decision Matrix: Is Transfer Right for You?

Use this framework to evaluate your options:

	Have Tax Liability	Minimal or No Tax Liability
Have Capital	Cash purchase + keep credits	Cash purchase + sell credits
Need Financing	Loan + keep credits	PPA/lease or loan + sell credits

Credit transfer makes the most sense when:

- 
 You need to optimize cash flow in year one
- 
 You have limited near-term tax liability
- 
 You want certainty over long-term credit utilization
- 
 Project economics require minimizing upfront investment

What Buyers Require: The Underwriting Process

The IRS requires buyers to perform minimum diligence, and buyers want protection against audit exposure.

Standard requirements:

- Project documentation: Completion package, warranties, PTO letters, utility upgrades
- Cost substantiation: Detailed cost breakout from contractor (request this upfront!)
- Financial underwriting: Company financials, ownership structure, organizational profile
- Legal protections: Indemnities covering the 5-year recapture period

For smaller credits (<\$2.5M):

- Personal or parent company guarantees (instead of expensive tax recapture insurance)
- Fundamental business underwriting, assessing the risk of the venture itself
- Letter of credit, in some cases

Why so much diligence for just selling credits?

Buyers face two key risks:

1. Disallowance risk: IRS determines credits weren't legitimate
2. Recapture risk: System is disconnected or property is sold within 5 years

Timing: When to Decide to Execute

Good news: You don't need to decide upfront

- Tax credit transfer decisions can be made AFTER construction
- Credits can be sold anytime until you file your tax return
- **Critical Rule:** Always extend your tax filing deadline—don't file early! This opens up credit buyers who may be entering the market later in the filing process. This is especially true for high-net-worth individuals.

Market execution windows: The buyer market has distinct seasonal patterns:

- **February to March**
Market wakes up, but many corporates are still closing prior year
- **April to August**
Primary execution window for most corporate buyers
- **Late August**
Many corporate buyers go dark
(6-week cutoff before October 15)
- **September to October 15**
High-net-worth buyers often are most active
(passive income rules give them flexibility)

Planning timeline:

Start conversations
3-6 months before
you need to close

IRS registration
takes up to
4 months

Build in buffer
time to avoid
"timing out"

Special Considerations

REITs

- **Can transfer credits through** Taxable REIT Subsidiaries (TRS)
- **Main friction:** indemnity requirements for partnerships or properties with planned disposition
- **Alternative:** Third-party ownership structures (less attractive pricing but more flexible)
- **Best candidates:** Credit-worthy REITs with long-term holds in specific partnerships

Minimum Deal Size

- **No statutory minimum**
- **Practical floor:** ~\$250,000 for streamlined programs (like Basis's Bolt)
- **Below \$250K:** Possible with portfolio aggregation or motivated niche buyers
- **High-net-worth buyers** are emerging for smaller, owner-user credits

Recapture Rules

- **Apply whether you transfer credits or not—** this isn't a new risk
- **Voluntary triggers** (disconnecting the system, selling the property) are controllable
- **Buyers want assurance** that the system will remain operational for 5 years

Next Steps: How to Prepare

If considering transfer:

1. Request a detailed cost breakout from your contractor before they're paid
2. Don't file taxes early—always extend
3. Organize project documentation: completion package, warranties, PTO
4. Engage advisors early to understand buyer appetite at your credit size
5. Be transparent about your business's financials and any credit considerations

Questions to ask advisors:

- What's the realistic buyer appetite at my credit size?
- What are the estimated net proceeds after all costs?
- What credit protections will buyers require from me?
- What's the timeline from engagement to cash?

Resources

Expert contributors:

Erik Underwood, Co-Founder & CEO, Basis Climate | buildwithbasis.com

James Coombes, VP of Business Development, Conductor Solar | conductor.solar