The Future of IRA Credit Transfers: Predictions From the First Year

by Marie Sapirie

This summer marks the third anniversary of the Inflation Reduction Act. Depending on what pay-fors Congress settles on in the budget reconciliation bill, that date may find the energy tax credits somewhat altered. While plenty of uncertainty for the future remains, it's clear that credit transfers authorized under the IRA have solidly taken off. That may make them more difficult to end or revise, as illustrated by a March 9 letter from 21 House Republicans to their colleagues arguing against repeal.

2024 was the first year that tax credit transfers began in earnest. In late December 2023, one of the first closings for a sale of advanced manufacturing credits occurred when First Solar agreed to sell $700 million of credits generated from the sale of solar modules at a price of 96 cents per $1 of credits. Once the precedent was set, an increasing number of sales took place, with most estimates in the vicinity of $25 billion in total transfers in 2024.

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"The market for tax credit transfers materialized as fast as any of us could have hoped for," said Andy Moon of Reunion, an energy tax credit marketplace. Large buyers moved quickly and completed purchases of $100 million, $200 million, $500 million, or more in credits. However, many buyers also look for credit volumes as small as single-digit millions, Moon said.

Lessons From 2024

The year began with a dearth of buyers, Moon said, adding, "They were still learning." By midyear, after seeing an initial slate of transactions successfully completed, buyers became comfortable with the process and jumped into the market more enthusiastically. By the end of the year, "credits would appear and disappear in a matter of days or weeks," Moon said.

The market prices mostly stabilized in 2024, with credits trading in fairly narrow bands, according to industry sources. There are currently 11 different credits that can be transferred. The most popular were production tax credits under section 45 and the advanced manufacturing production credit under section 45X, followed by investment tax credits under section 48. According to Reunion's data, both of those production-based credits traded at a median price of 95 to 95.5 cents. The ITCs had a lower median price of 92 cents per credit in the first quarter of 2024, but ended with a median of 94 cents in the fourth quarter. The increase in price reflected a large number of buyers seeking a small number of ITC opportunities from creditworthy sellers by the end of the year, Moon said. He added that there are more buyers interested in ITCs now than there were a year ago.

But buyers have shown reluctance to commit to long-term purchases, which affects sellers developing projects that are not expected to be completed until 2026 or 2027 for whom an advance commitment would be helpful for financing. Moon said that some purchasers are willing to commit to production tax credits for five or 10 years, but that most are unwilling to commit today to ITCs that are expected to be generated in 2026 and beyond. "Some very large buyers are contracting for 2026, but they are few and far between," he said, adding that these negotiations are extensive and include considerations regarding changes in law, insurance, indemnification, and potential construction delays.

Planning for the Rest of 2025

The variables are different in 2025 than they were in 2024. While the transfer process itself is now familiar, sellers have to contend with prevailing wage and apprenticeship requirements that were largely inapplicable to projects in 2024, and the looming budget bill is a source of unpredictability.

Buyer interest for this year still seems high, but at least some prospective buyers are holding off until they have more clarity on what to expect for their 2025 tax liability. The uncertainty is less over potential changes to the tax credits than possible changes to bonus depreciation under section 168(k), the five-year amortization of research and development costs under section 174, and the limitation on business interest in section 163(j).

But waiting on tax credit purchases might not be the ideal strategy, if the past year is any indication. Buyers who purchased early in 2024 typically paid lower prices for credits than those who waited and bought at the end of the year when credits for sale were less plentiful. However, that pattern probably won't be an entirely cyclical one — 2024 included a learning curve for the market that is unlikely for 2025. Last year also ended with high demand for credits but relatively few projects, which contributed to increased prices. If early movers in 2025 are rewarded, it will likely be because they were willing to enter agreements despite legislative uncertainty and without a complete picture of what they'll owe for 2025. Conservative taxpayers may end up paying a premium for credits at the end of the year.

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Credit buyers are preparing for 2025 by seeking protections in their purchase agreements, particularly change-in-law provisions and tax credit insurance. "We are seeing change-in-law provisions heavily negotiated," Moon said. In general, agreements to purchase credits that have a subsequent closing date allow the buyer to walk away if the law changes before the exchange of payment for the credits, he said. Similarly, if there is a retroactive change in law, agreements typically provide a no-fault indemnity structured so that the seller makes the buyer whole.

While tax credit insurance typically covered retroactive changes in law, not all carriers are still willing to offer that coverage. But that may not end up being a roadblock for buyers. Historically, "when tax incentives are withdrawn, there is typically a grandfathering rather than a retroactive clawback," Moon noted. The last time Congress withdrew credits, the changes didn't apply to taxpayers who had begun construction on their projects.

The lack of insight into what the budget bill may include means that taxpayers have a hard time planning with much precision, but that's not necessarily a major problem right now. "Uncertainty creates opportunity," Moon said. He said there are deals to be had for buyers who are willing to make commitments now, particularly in ITCs, for which the pricing is more flexible.

Buyers' preference for production tax credits over ITCs lessened over 2024 as buyers looked beyond the credits thought to carry the lowest level of risk, a trend that's likely to continue through 2025. Buyers seeking a larger discount will likely continue to look to ITCs for pricing in the low-90-cent range. The five-year recapture rules that apply to ITCs made them unpalatable for some potential purchasers, but there are indications that buyers are now happy to consider them on essentially an equal footing with production tax credits.

Moon said there are signs of the markets maturing and that transactions are moving faster than ever. "Once we sign a term sheet — a nonbinding letter of intent — it's typically less than 45 days, usually around 40, until the closing," he said. That's almost less than half the time that the same process took a year ago.

The transfer market's maturation doesn't guarantee that Congress won't change the rules, although for most of the credits, revision seems more likely than repeal. The Trump administration wants U.S. dominance for "all forms of American energy, including critical minerals." An executive order signed April 24 says that "the United States faces unprecedented economic and national security challenges in securing reliable supplies of critical minerals independent of foreign adversary control." While it's not yet clear whether Congress will pursue this policy in the budget bill, the administration's interest in boosting domestic critical mineral supply chains has a potential home in revisions to the IRA. ■