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Tax as a Driver of Sustainability

2023 U.S. Cross-Border Tax Conference

June 5–7, 2023

Solve for Complexity

Notices

The following information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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Agenda

ESG – Environmental, Social, Governance
IRA – Inflation Reduction Act

01

Welcome and introductions

02

IRA ESG tax credits

Overview of IRA credits and incentives

IRA aims at reduction of inflation and funds clean energy investment via loans, grants, tax credits and rebates

$735+ billion
of revenue raisers via 15% corporate minimum tax ($222B), prescription drug pricing reform ($265B), IRS tax enforcement ($124B), 1% excise tax on stock buybacks ($74B), loss limitation extension ($52B)

$300 billion
expected federal deficit reduction over a decade

$435+ billion
investments across energy security and climate change ($369B), Affordable Care Act subsidies ($64B), and western drought resiliency ($4B)

~$379 billion
total funding of climate related programs allocated for various loans, grants, technical assistance programs across sectors

Funding criteria
to target climate resiliency, sustainability, healthcare, reduction of emissions and use of natural resources

Recipients
include companies, states, tribes, local governments, governmental agencies, NPOs, institutes of research/higher education

IRA loans and grants by categories

$53.2 billion
11 Sections
Agriculture

$0.8 billion
1 Section
Affordable housing (energy/water efficiency and climate resilience)

$3.4 billion
6 Sections
Commerce, science and transportation

$109.8 billion
20 Sections
Energy and natural resources

$50.1 billion
26 Sections
Environment and public works

$3.9 billion
5 Sections
Sustainability and zero-emission vehicles

$0.4 billion
4 Sections
Tribal climate resiliency

Energy tax credits: Before and after IRA

Prior law

- Under prior law, many energy tax credits were expired or phasing down; all of the credits were nonrefundable and nontransferable
- Tax-exempt and government entities, as well as taxpaying entities with large net operating losses, had very limited ability to ‘utilize’ the energy tax credits

The IRA provides for new energy tax credits as well as significant changes to previously existing energy tax credits

- Significant enhancements and modifications to existing **energy tax credits** for solar, wind, electric vehicles (EVs), EV charging stations, etc.
- New credits for additional technologies and activities
- **Transferability** mechanism has been made available for some taxpayers, allowing them to transfer the credit to an unrelated third party for cash
- **“Direct pay” option allowing many tax-exempt and some government entities to benefit from the credits,** effective for tax years beginning after December 31, 2022
- For many credits, **prevailing wage and apprenticeship requirements** must be met in order to receive the highest available credit
- Credit adders may be available for projects that meet **domestic content** requirements as well as projects located within **energy communities**

IRA: Extensions and modifications to existing incentives

Renewable energy

- § 45 Production tax credit and § 48 Investment tax credit (wind, solar, geothermal, etc.)
- § 179D Energy efficient commercial buildings deduction

Producer or property investor

Advanced manufacturing

- § 48C Credit for manufacturing advanced energy property (EV components, fuel cells, electric grids, etc.)

Property investor

Transportation

- § 30D Clean vehicle credit
- § 30C Credit for EV charging stations

Property investor

Alternative fuels

- § 40 Second-generation biofuel credit
- § 40A and § 6426 Biodiesel and renewable diesel; biodiesel mixture credit; alternative fuel credit

Producer or user

Carbon capture

- § 45Q Credit for carbon oxide sequestration (increased rates)

Property investor

IRA: New credits

Renewable energy

- § 45U Zero-emission nuclear power production credit
- § 45Y and 48E Technology neutral clean electricity production and investment tax credits

Producer or property investor

Advanced manufacturing

- § 45X Advanced manufacturing production credit for solar and wind components, batteries, and critical minerals
- § 45V Clean hydrogen production credit

Producer

Transportation

- § 45W Qualified commercial clean vehicles
- § 25E Previously owned clean vehicle credit

Property investor

Alternative fuels

- § 40B Sustainable aviation fuel
- § 45Z Clean fuel production tax credit

Producer or user

ESG and credits and incentives

Environmental

Social

Governance

Use credits and incentives as a "pay for" E and S investments

Environmental

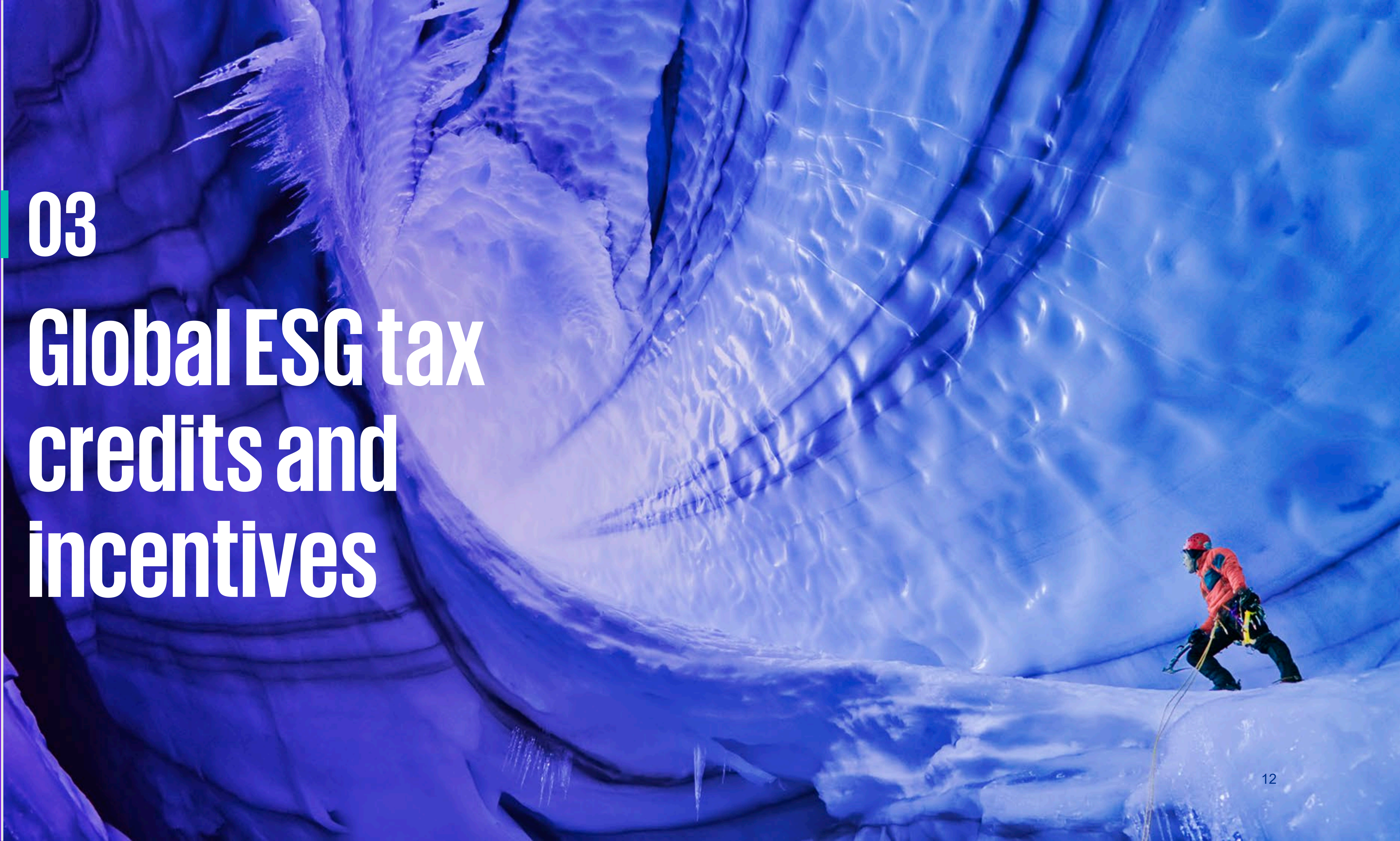
- Research & development
- Renewable energy
- Co-gen & energy recovery
- Greenhouse gas emissions reduction
- Electric vehicle, charging station
- Energy efficient building

Social

- Employee hiring/retention
- Job training
- Investment in economically distressed area
- Historic rehabilitation
- Low income housing

Institute governance approach

- Incentive strategy in alignment with company values
- Governance approach around incentives
- Stakeholders and work cadence
- Technology to enhance transparency and visibility



03

Global ESG tax credits and incentives

Universe of credits and incentives

A holistic view: credits & incentives

What is it?

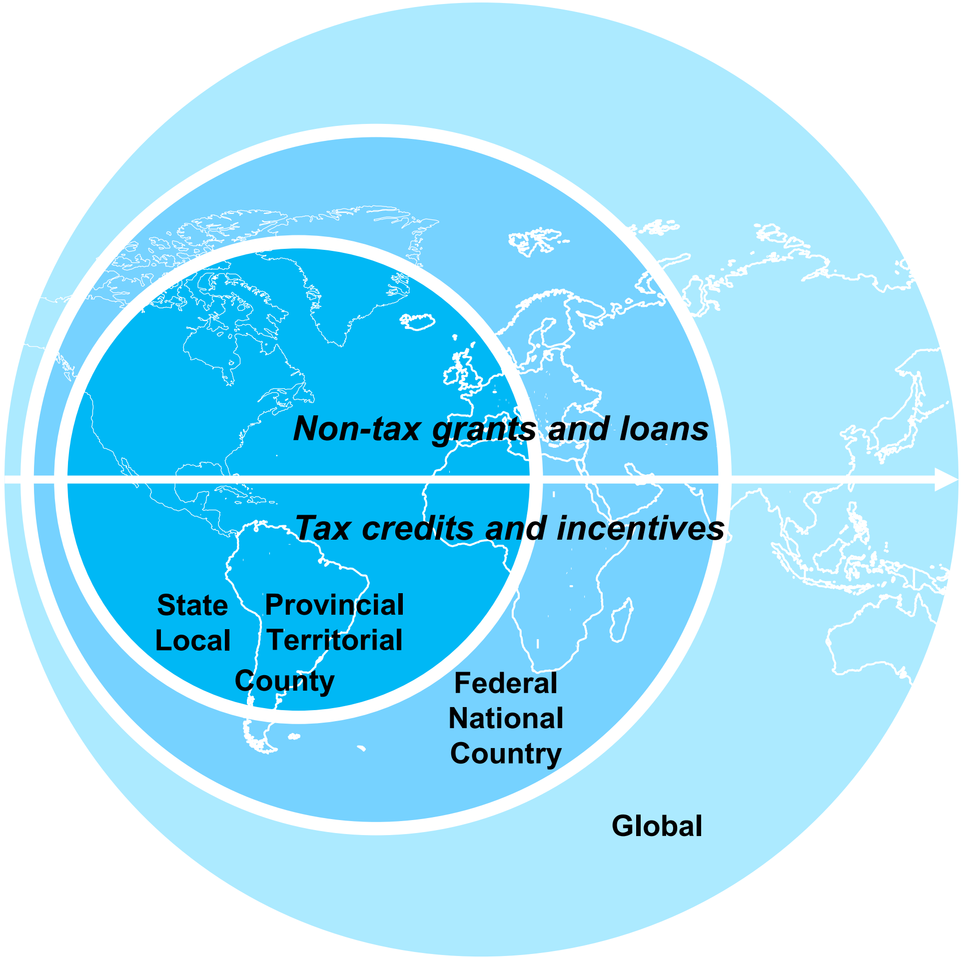
Coordinated and systematic approach to an assessment by location of a company’s growth, investment, expansion, and employee hiring plans, as well as business disruptions, as they correlate to available credits and incentives

Benefits?

Increased cash flow and permanent effective tax rate benefits to fund company investments

Why now?

With uncertain economic conditions and an ever-changing business environment, it is imperative the company consider credits and incentives to increase its return on investments and decrease costs



Trigger events

Trigger events for credits and incentives

- New or recurring capital expenditures
- Job creation or high-turnover companies
- Sustainability or clean/green energy efforts
- Mergers and acquisitions, spin-offs
- Manufacturing activities
- Research activities
- Any high state income tax liability, high growth companies
- Investments in economically distressed areas
- Companies that recently negotiated tax incentives
- Consolidation of facilities
- Company-wide training initiatives
- Federal declared disasters
- Credits with onerous documentation burdens

Introduction to EU Green Deal Action Plan and new funding perspective

Increasing the EU's Climate ambition for 2030 and 2050

Cut emissions by AT LEAST 55% by 2030 (compared to 1990 levels) and become the first climate neutral continent by 2050

A zero pollution ambition for a toxic-free environment

Preserve biodiversity, reduce pollution from excess nutrients, reduce micro plastic pollution, review air quality standards, reduce pollution and improve prevention of industrial installations with sustainable alternatives for chemicals

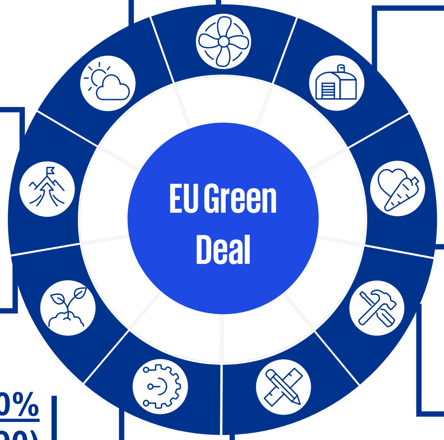
Preserving and restoring ecosystems and biodiversity

Accelerating the shift to sustainable and smart mobility (90% reduction of GHG by 2050 in comparison with 1990)

Go Digital – *automated mobility, smart traffic management systems, smart applications*

Use different modes of transports – *rail or water*

End subsidies for fossil fuels, EU ETS for maritime and more aviation, sector, road pricing



Supplying clean, affordable and secure energy

Increase interconnections between energy systems with modern infrastructure, high energy efficiency, starting to decarbonise gas sector, increase cross border cooperation and develop full potential of offshore wind energy

Mobilising industry for a clean and circular economy

Support for modernisation of industries with climate neutral and circular products with special focus on energy intensive industries (steel and cement). The EC will propose a sustainable products policy with a circular economy Action Plan to modernise the EU economy.

From Farm to Fork: a fair, healthy and environmentally friendly food system

Leave no one behind – ***Just Transition Mechanism***

Providing dedicated funds for regions with high carbon intensity, which will be disproportionately affected by the transition – Just Transition Fund

Building and renovating in an energy and resource efficient way

Increase energy performance of buildings (circular economy design, digitalisation, climate proof), develop innovative financing for renovations including social housing, schools and hospitals (leave no one behind strategy)

MFF + NGEU = source of 2021 – 2027 funding

The EU's 2021-2027 long-term budget, together with NextGenerationEU, represents a combined firepower of €2,018 trillion in current prices to help repair the economic and social damage caused by the coronavirus pandemic and steer the transition towards a modern and more sustainable Europe. The package consists of the long-term budget for 2021-2027 the Multiannual Financial Framework (MFF) of €1,211 trillion in current prices, combined with the temporary recovery instrument, NextGenerationEU (NGEU), of €806.9 billion in current prices.

Single Market, Innovation and Digital (€161,0 billion of which €149,9 billion MFF + €11,5 billion NGEU)

Tackle common challenges such as decarbonisation and demographic change and boost the competitiveness of enterprises and SMEs. This includes innovation, digital transformation, infrastructure and Single Market.

Cohesion, Resilience and Values (€1.203,2 billion of which €426,7 billion MFF + €776,5 billion NGEU)

Strengthen cohesion among EU Member States. Aims to reduce disparities within regions and promote sustainable development. This fund will back up regions without necessary resources to implement Green Deal action plan.

Security and Defence (€14,9 billion MFF)

Programmes that strengthen the security and safety of European citizens, improve Europe's defence capacities, and provide the tools to respond to crises. (low impact on Green Deal)

Natural resources and Environment (€419,9 billion of which 401 billion MFF + €18,9 billion NGEU)

Investing in sustainability and climate action, environmental protection. It's a core part of the budget implementing Green Deal policies from financial point of view.

Migration and Border Management (€25,7 billion MFF)

Tackle the challenges linked to migration and the management of borders. Improvements for the asylum system within the EU, and support to Member States will be boosted to step up the management and integration of migrants. **(low impact on Green Deal)**

European Public Administration (€82,5 billion)

Covers mainly the administrative expenditure of all EU institutions, which is the backbone of all Green Deal management and administrative support.

MFF + NGEU = source of 2021 – 2027 funding (continued)

Neighbourhood and the World (€110,6 billion MFF)

Invest in the EU's external action in its neighbourhood, in developing countries and the rest of the world. This includes all EU actions, including Green Deal/climate approach by implementing EU's solutions in other countries.

	MFF	NGEU	TOTAL
Single Market, Innovation and Digital	149.5	11.5	161.0
Cohesion, Resilience and Values	426.7	776.5	1 203.2
Natural Resources and Environment	401.0	18.9	419.9
Migration and Border Management	25.7	-	25.7
Security and Defence	14.9	-	14.9
Neighbourhood and the World	110.6	-	110.6
European Public Administration	82.5	-	82.5
TOTAL	**1 210.9**	**806.9**	**2 017.8**
TOTAL expressed in 2018 prices	**1 074.3**	**750.0**	**1 824.3**

EU funding programmes and funds through 2027

Connecting Europe Facility – Energy

Key EU funding instrument for targeted infrastructure investment at European level. It supports the implementation of the Regulation on Trans-European Networks for Energy (TEN-E), a policy framework focused on linking the energy infrastructure of EU countries

Connecting Europe Facility – Transport

Funding instrument meant to realize the European transport infrastructure policy. It contributes to the implementation of the TEN-T framework by financing key projects to upgrade infrastructure and remove existing bottlenecks whilst also promoting sustainable and innovative mobility solutions.

European Regional Development, Cohesion Fund, REACT-EU

ERDF and CF are part of the EU Cohesion Policy funds. These funds represent almost one third of the total Multiannual Financial Framework budget for 2021-2027. They support innovation and entrepreneurship in the transition to a climate neutral economy. REACT-EU provides additional funds to ERDF..

Recovery and Resilience Facility

The centrepiece of Europe's recovery plan, the NextGenerationEU. Its aim is to mitigate the economic and social impact of the COVID-19 crisis and make EU economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transition.

LIFE programme

The only EU funding programme entirely dedicated to environmental, climate and energy objectives. The Clean Energy Transition sub-programme is a new component of the LIFE programme, which was previously included in Horizon 2020.

InvestEU

Provides a budgetary guarantee fund that facilitates access to finance for riskier projects that are commercially viable and leverage private investments. It steers 4 main policy areas: sustainable infrastructure; research, innovation and digitalisation; SMEs and social investment skills.

Just Transition Fund

Part of the EU Cohesion Policy funds. It aims to reduce the social and economic costs resulting from the transition to the EU's 2030 climate target. JTF focuses on the regions dependent on fossil fuels with less capacity to finance the necessary transition investments.

Innovation Fund

One of the world's largest funding programmes bringing highly innovative low-carbon industrial technologies to the market (commercial demonstration projects) in need of additional CAPEX & OPEX support to reach break even in the next decade.

Modernisation Fund

Dedicated programme to support 10 lower-income EU countries in their transition to climate neutrality by helping to modernise their energy systems and improve energy efficiency via support investments in energy storage, generation and use of renewable sources and modernisation of energy networks.

Horizon Europe

The EU's key funding programme for research and innovation, running from 2021 to 2027. It provides support to researchers and innovators to drive systemic changes to ensure green, healthy and resilient EU. 35% of its expenditure will support Europe's climate objectives.

04 Sustainable investments & ESG tax credits

Executive Summary

The Inflation Reduction Act of 2022 ("IRA") is the catalyst for broad renewables interest. KPMG provides a complete, end-to-end service to support all stages and needs of renewable energy endeavors for investors, developers, construction, operations, structuring, financial placement, and credit verification, sales and purchase.

Why is there an opportunity?	▪ The passage of the IRA introduced unprecedented government spending and incentive programs which will serve as a catalyst for the entire US clean energy industry ▪ Transferability rules in the IRA allow for an expanded investor pool for renewable credits and tax equity investment ▪ Experts estimate there will be a $25-$30 billion annual "gap" between tax equity need for projects and current market capacity.
What is the opportunity?	▪ Increases in clean energy investment driven by the IRA will generate new tax credits worth billions of dollars, creating a new market opportunity for tax equity as well as credit sales/transferability. ▪ New investors can gain access to tax credits for renewable energy generation, carbon capture, clean energy manufacturing, and energy efficiency implementation ▪ Tax equity investment creates an opportunity for investors to enhance shareholder value, while also participating in the clean energy transition
How can new investors participate?	▪ The expansion of tax credits driven by the IRA requires the participation of a wider array of investors ▪ Corporations, including those subject to the new Corporate Alternative Minimum Tax ("CAMT"), can utilize many of these credits to reduce their tax burden, while also increasing their ESG profile ▪ Many of the tax credits are transferrable, and create the opportunity for market expansion, as a greater number of developers and investors to utilize these credits
Why KPMG?	▪ KPMG is a premier global tax advisor, with a successful track record of providing a full range of tax advisory services to clients throughout the clean energy space ▪ KPMG has deep relationships with marque developers and Fortune 100 corporate alternative minimum tax(CAMT) payers ▪ KPMG's global renewables development, M&A, and capital raising experience allows for a world-wide perspective and access to opportunities that are unrivaled

Source: (1) Princeton University Zero Labo – "Preliminary Report: The Climate and Energy Impacts of the Inflation Reduction Act of 2022" (August 2022)

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Tax equity and tax credit opportunities created by the IRA

Tax equity and tax credit investments provide income, reduce tax burden, and give investors a role in the clean energy transition

~$500B

Total tax equity and tax credit needs (from 2022 to 2031)

Tax equity market is poised for a clear evolution post-IRA, with participation from a wider array of players

Investment opportunities which range from 1 to 10 years, with developers across the decarbonization economy

Inflation Reduction Act: Tax credit and equity opportunities

IRA has provided more robust and lucrative opportunities for tax credits and/or tax equity since its passage.

~$500B

Total tax equity needs from 2022 to 2031

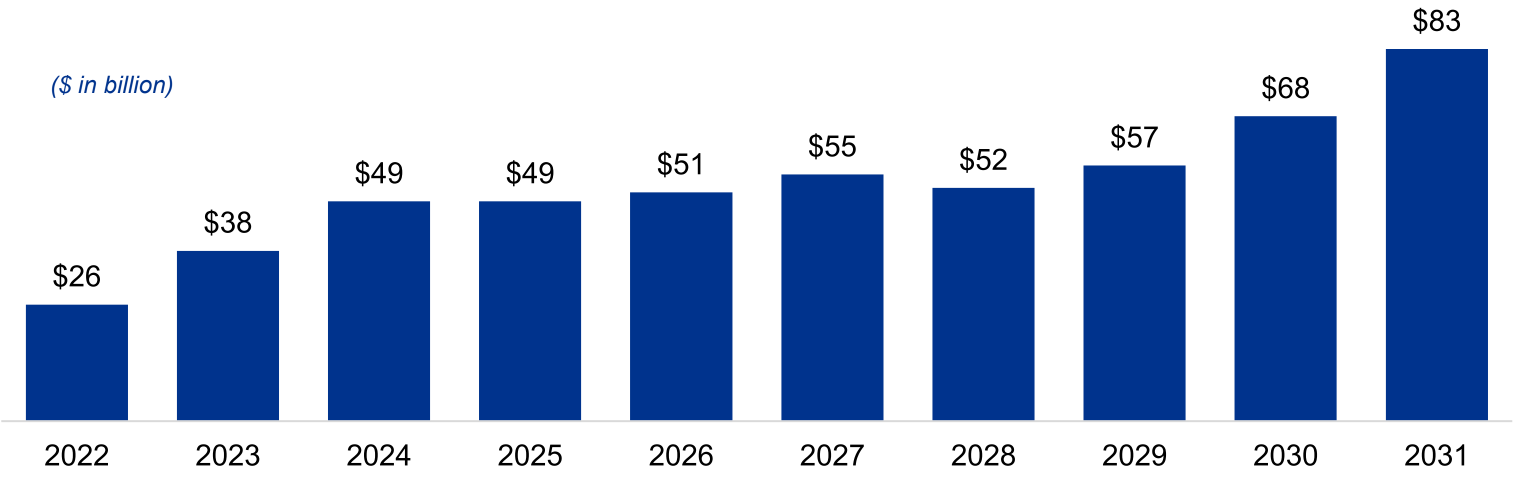
~$50B

Expected tax credit market post-IRA

Tax equity market is poised for a clear evolution post-IRA, with participation from a wider array of players

Source: Credit Suisse estimates (September 2022).

U.S Tax Equity Requirement for ITC and PTC



- **Solar and wind projects** developers will elect to **opt for tax equity** given the existing relationships with large banks, favorable rates, and the ability to monetize accelerated depreciation tax benefits
- **Clean hydrogen and CCUS** manufacturers should avail **direct pay** in the first five years of their needs, **and tax credits thereafter**, since tax equity is not available for risky projects early on while the technology is still developing
- Ability to **transfer/sell** credits instead of opting for traditional tax equity. Sponsor keeps the depreciation of capital investment but monetizes the credits through a **direct sale/transfer**.

Renewable energy investment considerations

Renewable energy focus:

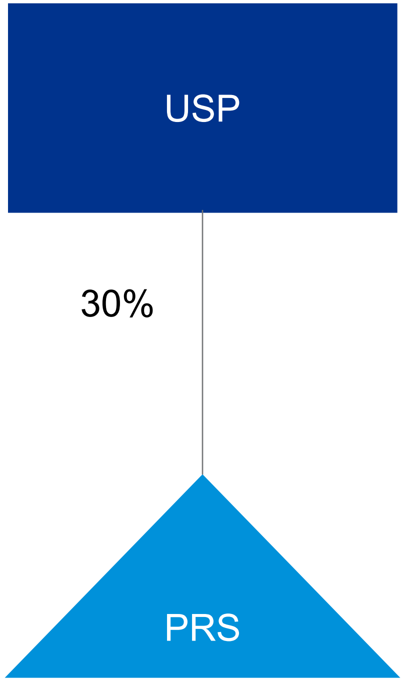
Considerations range from initial diligence of accounting and tax assumptions in developer models to tax and financial reporting and practice disclosures for describing an investor's results in renewable energy projects.

Tax	• Inquire about historical tax structure and changes since formation, including the issuance of tax equity interests. Confirm historical development/operating activity and FIRPTA implications. • Obtain and read the partnership or operating agreement. • Understand tax classification of each legal entity and tax elections that have been made. • Inquire regarding the historical placement of debt within the legal structure and what analysis has been performed to determine that the interest is deductible.
Accounting	• Draft accounting policy around equity method accounting treatment/non-controlling interest allocation. • Determine key accounting positions surrounding structure of deal (i.e., consolidation, sale-leaseback and basis differences from business combination accounting). • Determine timing of recognition of equity method income pickup (e.g., record activity one month in arrears).
HLBV waterfall allocation and financial reporting	• Develop HLBV (Hypothetical Liquidation Book Value) allocation methodology to align with accounting policy. • Test HLBV allocation for recent activity and compare results with developer's application of HLBV for vetting assumptions. • Account for basis differences as a result of applying business combination accounting. • Document key inputs and assumptions for internal control assessments, financial statements, and related disclosures.
Tax allocations	• Understand the terms of historical tax equity investment and expected flip data. • Obtain and read the most recent tax equity model to gain comfort on how the investment is tracking toward the agreed-upon terms. • The allocation of profits, losses, distributions, and tax credits between target and the tax equity investors, if any; the significance of any deficit restoration obligations and the loss limitation rules under the partnership tax regime; and if provisions reflect the new partnership audit rules.

05

Pillar Two considerations

Pillar Two Considerations – Equity Investment Inclusion Election



Facts

- USP is part of an MNE Group that is subject to the GloBE Rules.
- USP holds a 30% interest in PRS which it accounts for under the equity method.
- PRS constitutes a “Qualified Ownership Interest” because USP does not expect to recover its investment without relying on incentive credits that are not Qualified Refundable Tax Credits.
- In Year 1, USP invests $100 in PRS and receives a distributive share of $(100) depreciation from PRS.
- In Year 2, USP receives $100 of nonrefundable incentive credits.
- In Year 3, USP disposes of its interest for $10.

Analysis

- Absent an Equity Investment Inclusion Election, USP would reduce its Covered Taxes in Year 1 on account of the flow-through depreciation and in Year 2 on account of the $100 nonrefundable credits, potentially causing the US to be low-taxed.
- Where an Equity Investment Inclusion Election has been made, the Group’s GLOBE Income includes its share of minority interest income/loss. USP will also reduce its investment for the amount of distributions, credits, proceeds on sale or disposition and the tax-effected amount of losses because PRS.
- This would not apply in respect of the Transitional CbCR Safe Harbor.
- Until its investment has been reduced to 0, USP will get a positive adjustment to its Covered Taxes for the amount of credits or tax-effected losses to the extent such credits or tax-effected losses have reduced its Covered Taxes.

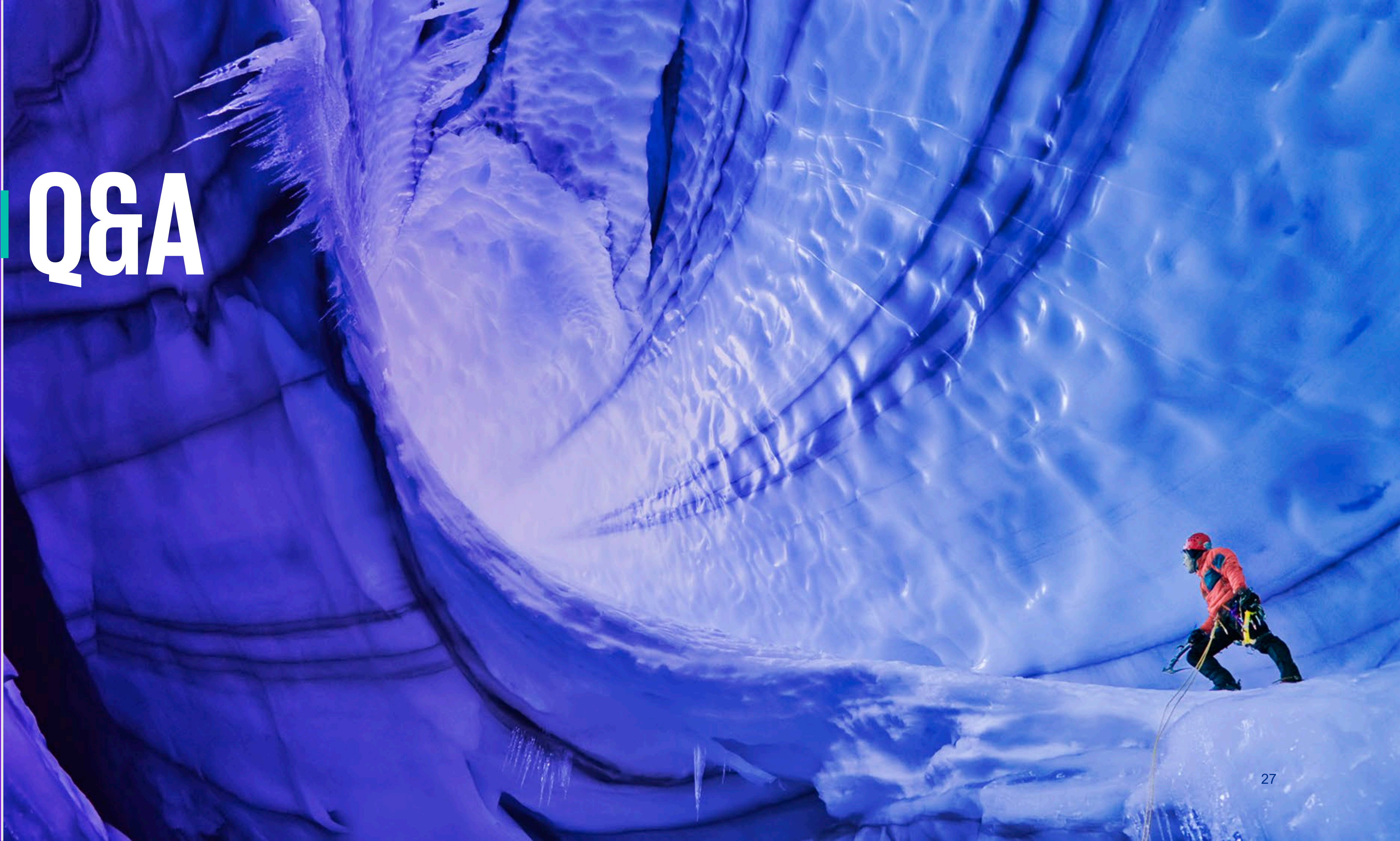
Pillar Two Considerations – Equity Investment Inclusion Election – Cont.

Impact of election

- In Year 1, USP gets a positive adjustment of up to $21 to its Covered Taxes to the extent the depreciation resulted in a decrease in its Covered Taxes. USP's remaining investment is $79.
- In Year 2, USP gets a positive adjustment of up to $79 to its Covered Taxes to the extent the nonrefundable credits resulted in a decrease in its Covered Taxes. The remaining $21 of credits are ineligible for a positive adjustment since USP has recovered its investment.
- In Year 3, USP reduces its Covered Taxes by $10 because it has already recovered its investment and it has previously taken positive adjustments of at least $10.

		Year 1	Year 2	Year 3
Tax Equity Investment	Investment	100		
	Investment adjustment	(21)	(79)	10
	Non-refundable credit		100	
	Sale of investment			10
Data Points	PBIT	900	1,000	1,010
	Loss from minority investments	(100)	-	-
	FDII deduction	(200)	(180)	(180)
Tax	Taxable inc	700	820	830
	Tax liability	147	72	174
GLOBE ETR	Covered Taxes	147	72	174
	GLOBE inc	1,000	1,000	1,010
	GLOBE ETR	14.7%	7.2%	17.3%
Inclusion Election	Covered Taxes	168	151	164
	GLOBE inc	900	1,000	1,010
	GLOBE ETR	18.7%	15.1%	16.3%

Q&A

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