

INVERTED LEASE FOUNDATIONS



SOLSYSTEMS

About Sol Systems

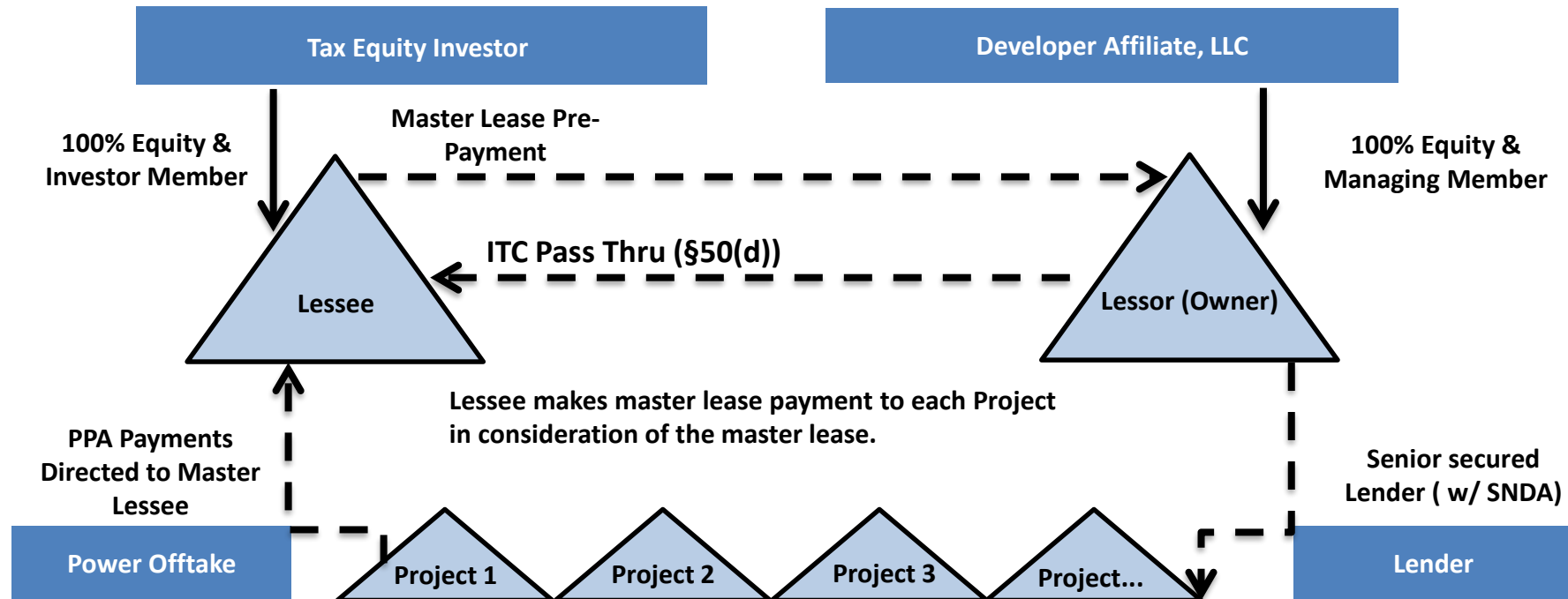
Sol Systems is a solar energy finance and investment firm. Since 2008, the company has facilitated financing for over 400 MW of distributed generation solar projects on behalf of Fortune 100 corporations, insurance companies, utilities, banks, family offices, and individuals.

Our clients depend on us to originate, diligence, negotiate, structure and asset manage long-term investments in distributed solar projects and derivative assets. Integrity, mission, and a commitment to excellence drive our team and our business.

Levered Inverted Lease Structure

Managing Member: Developer Affiliate, LLC

Governing Document(s): Lessee operating agreement & SNDA with Lender



Inverts vs. Partnerships

Capital Accounting

Partnerships require tax equity to reduce tax basis by 50% of the ITC claimed, leading to loss absorption limitations. Inverts require tax equity to take 50% of the ITC claimed into income, pro-rated over compliance period.

Depreciation Allocations

Partnerships allocate 99% of taxable income (losses) to tax equity, subject to §704(b). For non-partnership inverts, depreciation is trapped at Lessor, and tax equity utilizes §467 interest expense to shield §50(d) income.

Safe Harbors

Partnerships look to Rev. Proc. 2007-65 (wind) for safe harbor. Inverts look also to Rev. Proc. 2014-12 (HBH) for safe harbor.

Investor Base

Partnerships are generally perceived as 'middle of the fairway', and have deeper investor base. Inverts are generally perceived as more complex, and have narrower investor base.

Pros / Cons

Differentiation

Inverts allow tax equity to participate at separate tier than project finance investor / state credit investor, alleviating friction between the investors.

Phantom Income

Using partnerships, Sponsors can incur phantom income when establishing tax basis to FMV. Using inverts, some Sponsors may elect to avoid the phantom income when establishing tax basis to FMV.

50(d) Risk

Pending guidance (March est.) from IRS will decide whether § 50(d) income is includable in tax equity's outside basis calculation.

Complicated

Partnerships are less resource intensive with a broader capital base. Inverts are more complicated, and have a thinner market for potential Sponsors.

Q&A