Finance for a sustainable future:
How Tax can support transformation

Introduction

Tax is a key component of any organization's finance function; however, it is not often thought of as a leader in sustainability. With potentially trillions of dollars at stake thanks to federal, state, and local tax credits, and sustainability-focused legislation in the United States and globally, Tax is likely a comparatively untapped partner to Finance in many organizations.

To take advantage of this "money on the table," the two functions should consider working more closely together when thinking about funding, building, and reporting on enterprise wide sustainability. Additionally, leaders elsewhere in the organization should consider more closely aligning with Tax, as many may not realize how much their own work on sustainability intersects with what Tax can offer.

The 2022 Inflation Reduction Act (IRA) established billions in tax incentives to promote investment in a variety of technologies to counteract climate change.[1] When combined with state and local as well as global tax credits, incentives, and grants, this puts potentially trillions of dollars into play over the next decade for businesses to capitalize on.[2] Even companies that cannot directly take advantage of traditional tax credits may be able to monetize IRA credits either through direct-pay provisions or by selling these tax credits.

Also passed in 2022, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act included substantial grants to promote investment in the US domestic semiconductor manufacturing and supply chain. Total incentives under CHIPS credits may accumulate to as much as $52.7 billion in the five-year period that began in 2022.[3] Similarly, large-scale grant programs exist in other federal agencies, such as the US Department of Energy's Grid Resilience and Innovation Partnerships,[4] as well as overseas with the EU's European Green Deal. In fact, globally, a rich and varied incentives landscape can help companies make capital investments to decarbonize, become environmentally sustainable, and carry out R&D to remain competitive.

What will you do to take advantage?

The IRA and other credit, incentive, and grant statutes explicitly aim to accelerate the clean energy transition. Emerging options for claiming and monetizing those credits are creating new opportunities for organizations to make ambitious climate-related investments. However, some of those credits are available for only a limited period, which is more reason to act quickly.

By themselves, incentives typically don't make the projects happen—or make the desired return on investment appear. Organizations should consider an approach to the complex work of credit, incentive, and grants management that lets them embrace the big picture while coordinating the many necessary internal decisions. A major step in creating that approach is to bring together multiple teams across an organization that may be working in separate corners today—not only Tax and Sustainability, but also Finance, Accounting, Legal, Corporate Development, Operations, and others.

Common challenges rise to the top

In a 2023 Deloitte survey of Tax and Finance executives:[5]

43%

of survey respondents said complying with evolving tax laws and regulations around the world is a top-three challenge.

33%

of survey respondents said applying a sustainability framework to the tax department is a top-three challenge.

On the same team.
In the same room?

Business leaders are often not getting the full picture when they consider how to navigate their sustainability journey. It can take the combined input of tax professionals along with leaders in various functional areas to understand sustainability-related tax opportunities and the ways to pursue them. Without that information and insight, making the right strategic, enterprise-level investments may be challenging.

The *2023 Deloitte Global Tax Transformation Trends Report* found that since 2016, companies appear to be increasing the practice of performing key tax activities outside the tax department—including by another part of the finance function, by shared service centers, or by outsourcing to a third-party provider.[6]

One reason for this cross-functional collaboration is that the Tax process requires data. Tax is likely one of the biggest consumers of internal data in an organization, and when putting together periodic compliance, Tax will likely connect with every area of an organization. Further, Tax must keep abreast of the rapidly evolving regulatory and legislative landscape. As the "consumer" of all this data, Tax is likely uniquely positioned to assist C-level decision-makers on sustainability-related investments. Increasingly, proactive tax planning can shape future strategy, assist in deploying assets, and promote behaviors—not just account for them.

Taking the finance picture as a whole

Of course, earning and applying a tax credit directly is not the only way to realize value from it. The IRA's new ability to monetize tax credits in an open market offers new ways to embed them into a company's finances. Monetized credits represent a new option in a "financing stack" that starts with outright grants, the lowest-cost capital, to include government loans, commercial loans, private equity, and other sources.

Understanding the way elements of the "stack" relate to one another is an important part of managing it. For example, Pillar Two provisions for a minimum effective corporate tax rate adopted by member states of the G20 and the Organisation for Economic Co-operation and Development may blunt the value of some tax credits because some are treated less favorably than grants under the new regime. That can influence an organization's willingness to pursue one type of incentive over another—a question of corporate philosophy that everyone should understand and align on.

Tax credits and the ability to either use or monetize them can be a positive factor in securing commercial financing for sustainability-related projects because banks often include credits in the analysis behind their lending decisions.

In this and other ways, while tax credits do not actually create new capital as such, they can be a factor in freeing it up for use in worthwhile projects.

These credits also have the potential to broaden the number of companies that embark on sustainable projects, because newer or smaller organizations can use IRA incentives and other credits to take on initiatives they otherwise could not. The programs also might make it possible for companies to fund initiatives that might not apply to them directly. Even non-commercial entities, such as state and local government entities, can use IRA incentives to make climate-friendly investments. For example, a city can leverage refundable tax credits to support initiatives such as fleet electrification or renewable energy development. Like other efforts to qualify for credits, this requires informed guidance from tax professionals to determine what uses are qualified.

Different lanes in the same data pool

What do new and existing tax credits, incentives, and grants, along with new and existing climate rules and new tax disclosure rules (in areas other than sustainability), all have in common?

They are not only massive data exercises individually, but exercises that use much of the same data and reporting to many of the same external stakeholders. It may make sense for Tax, Finance, Sustainability, and Operations functions to tackle them together—and in many companies, they aren't.

Collaboration between these business areas can bring value in areas beyond incentive-based financial value. For example, many companies are also reviewing their supply chains, vendors, legal entities, and other potential changes. It's vital as part of the process to understand the ways that change might manifest itself from a tax perspective. The goal is to make sure you're doing all of this in a tax-efficient structure as much as possible.

Key reasons to involve Tax in sustainability-driven projects

Because capital is finite, the sustainability-related projects that might unlock government incentives must satisfy a comparative business case—they must be not only good investments but better than other possible ones. Weighing and making those decisions can benefit when Tax is closely involved.

Tax can **identify funding** that can help finance the company's clean energy transition and/or its other sustainability initiatives.

Considering and managing direct, indirect, property, and excise taxes **may increase the return on sustainability-related investment**.

Compliance with laws and regulations has special relevancy to Tax because of the **evolving push for tax- and environmental-related mandatory disclosure**.

As an example, the European Union's Corporate Sustainability Reporting Directive (CSRD) compliance and supply chain modifications may drive entity structure changes that have **significant tax consequences**.

Tax and Sustainability teams may have several resources, goals, and tasks in common related to reporting:

- Tax is often likely to be the largest consumer of data within an organization and is frequently already using, preparing, and analyzing **data that may be applicable** not just in broader sustainability disclosures, but also to demonstrate the positive impact of the organization's sustainability efforts in the diverse communities it serves.
- Tax reporting regulations, specifically **public country-by-country reporting** (CBCR), are in force in certain jurisdictions and will require many companies to disclose more on tax and the business. This may expose a company to scrutiny, but it may also provide an opportunity to highlight its commitment to sustainability.
- Tax should be assessed as a potential material topic in sustainability reporting and climate disclosures. For example, environmental taxes can represent a material risk to the company. Further, minimum safeguards included in the **EU Taxonomy** are expected on tax governance as part of the **EU's CSRD**.[7]

Survive, drive, and thrive

As with other efforts to keep pace with sustainability needs, the evolution of a company's ability to integrate Tax into that work may progress in stages rather than all at once. As each organization plots its own transition, it can be useful to recognize some milestones—which levels of achievement represent fundamental survival, which ones correspond to an initiative to drive ahead, and which ones have the potential to set an organization apart to thrive ahead of the competition.

Survive

- Understand the incentives that are available from governments at different levels and from different countries—including new ones—and the ways they can affect your financing decisions.
- Continue to meet the requirements of today's large volume of sustainability regulatory requirements, again including ones that have recently emerged or are close to adoption.

Drive

- Get the Tax and Sustainability teams in your organization in concert, or at least in contact, as they work on similar programs of incentive and investment using (or needing) much of the same data.
- Recognize that while tax incentives typically bring the tax department into play, government grants may not—it's more common for Development, Operations, or Government Affairs teams to handle those. Coordinating both approaches is important to building a rational overall incentive strategy.
- Think about the company's commitments that go into meeting those requirements, which will translate into new investments. Funding for those investments may bring tax incentives into play.

Thrive

- Unleash the full power of the available capital stack, including grants, loans, and incentives.
- Understand government programs and incentives well enough to include them in financial planning, get ahead of the process, and perhaps even help drive the decisions governments make.

From theory into practice: Steps worth taking now

The opportune time is now for Tax to turn its focus toward sustainability. According to Deloitte's *2024 Global Tax Policy Survey,* "The pressure on tax functions is expected to grow, as most respondents expect to be affected by the environment, social, and governance (ESG) discussions, with tax data being drawn into wider reporting—alignment across various departments will then be critical to the efficient delivery of tax transparency strategies."[8]

You can take steps today to start getting your Tax, Finance, and other internal teams aligned on how to tackle the topic of sustainability together.

- Businesses can help **accelerate operations transformation** by using the capital market transitions they're already managing to potentially increase sustainable investments and improve their cost and capital structure. Arenas for this may include carbon trading markets, restructuring, government grants and incentives, capital planning and management, and treasury management.
- **Tax governance and transparency** can benefit from work to improve governance, access global data, and deliver a robust tax transparency response. This includes understanding the tax aspects of all emerging sustainability reporting standards, whether voluntary or compulsory; agreeing on a strategy and plan with key stakeholders; and implementing the plan, including improvements to governance, effectively extracting and analyzing data on global tax footprint, and reporting your tax narrative and data with confidence according to any set plan.

  Companies that opt to share their tax approaches and data do so for various reasons, which often includes the willingness to demonstrate responsible tax approaches, in narrative and in data, thereby addressing societal expectations and aligning with organizational sustainable business strategies; building trust with the community, investors, and other stakeholders; and ultimately strengthening their license to operate.

Transparency and reporting are the top issue for Tax leaders

In a 2024 Deloitte survey of global Tax and Finance executives:[9]

70%

of survey respondents indicated that they expect their levels of tax transparency to increase in the coming years, notably due to public CBCR, with many looking to report more than is required.

Whole companies for a whole planet

Making the most effective and complete use of government incentives can help an organization reach and report its carbon reduction goals more quickly and cost-effectively. It can also bring a commercial edge to organizations by more rapidly and effectively commercializing emerging sustainability-related technologies, such as carbon sequestration, green hydrogen, or electrification.

While the incentives are external, the key to maximizing their potential may be internal. If your Tax and Finance teams aren't working together with the teams working elsewhere in the company to drive sustainability, you may be leaving money on the table.

When solar and wind energy were new technologies, tax credits, incentives, and grants in the Internal Revenue Code and a number of state statutes fostered their widespread development and deployment. Today those are bankable technologies, no longer considered "emerging." What technologies will follow the same trajectories because of today's tax incentives?

Management of tax credits, incentives, and grants to help reward and fund sustainability efforts is not a business plan all by itself. But it is an important tool. The provisions of the US IRA and other state, local, and global programs put some of the relevant resources within reach for organizations that have a plan to see, understand, and pursue them.

Click here to learn more about the Finance for a Sustainable future series.

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Endnotes

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