

Tax Insurance

Tax Credit Insurance Q1 2026 Market Update





Tax Insurance Practice

Tax insurance is a risk management tool protecting against tax loss arising from one or more transactions, investments, or events.



Executive Summary

- The tax insurance market (the “Market”) remains highly cautious regarding “step-ups” in project valuations. Most underwriters will fully insure projects only where step-ups are approximately 25% or less above the project’s cost. This conservative underwriting approach is drawing scrutiny from developers, particularly where strong third-party support exists for higher valuations.
- Section 48E ITCs remain both insurable and financeable. Despite ongoing uncertainty surrounding the Foreign Entity of Concern (“FEOC”) rules and the absence of additional formal guidance, the Market continues to provide tax insurance for these projects, generally excluding FEOC-related risk. Projects claiming Section 48E ITCs continue to secure tax equity and preferred equity financing.
- CAC recently conducted a Market survey to assess current underwriting sentiment regarding FEOC. Key findings include the following:
 - Appetite for FEOC-related coverage remains limited pending issuance of additional formal guidance, especially with respect to the “effective control” rules;
 - Underwriters expect robust third-party memoranda or legal opinions addressing FEOC compliance;
 - Some underwriters are willing to review FEOC analyses once further guidance is released but are not committing to provide affirmative coverage prior to such release.
- Market capacity is rebounding as new capital providers enter the tax credit insurance space and previously constrained insurers expand their deployment of capital.
- Pricing is beginning to normalize toward pre-Q4 2025 levels. As new capacity enters the Market, and demand moderates after capacity constraints put upward pressure on pricing in late 2025, pricing in Q1 2026 is stabilizing. Early indications reflect increasingly competitive quote dynamics compared to year-end conditions. Underwriter bandwidth has improved as year-end transactions close and pipelines normalize. Q1 and Q2 remain optimal periods to seek proposals for tax credit insurance, as the early-year window typically

offers greater underwriter bandwidth and more competitive pricing for securing coverage.

- Premium deposit structures have evolved. Most underwriters now require a 20% premium deposit at binding (versus the historical 10% deposit), with the remaining balance due by a fixed outside date, rather than solely upon satisfaction of a transaction milestone (e.g., COD, PIS, etc.). This shift reflects broader underwriting discipline around capacity allocation and payment timing.

Step-Ups, Developer Profit and M&A

Underwriters continue to treat “step-up” risk (i.e., developer profit) as a central underwriting focus. As noted in our Q4 Market Update, most underwriters maintain a firm threshold at approximately 25% above cost. That benchmark, which became increasingly entrenched throughout 2025, remains largely unchanged in Q1 2026. Only a limited number of underwriters (as identified in a recent Market survey) are willing to offer primary terms above the 25% threshold without requiring a retention, and overall Market appetite has not materially shifted.

As consolidation accelerates across the renewable energy industry, CAC has received numerous inquiries regarding the treatment of acquisition cost in calculating the applicable “step-up,” particularly for projects under construction. The core issue is whether the 25% threshold should be measured against the full acquisition cost (including platform or development costs) such that a subsequent sale into a tax equity or preferred equity structure may support an additional 25% step-up, assuming a defensible third-party appraisal supports the valuation. Underwriters are evaluating these fact patterns closely, and positions can vary depending on project stage, valuation methodology, and documentation.



CAC Advantage:

Despite tightening Market appetite, CAC continues to successfully place insurance for transactions exceeding typical step-up thresholds by leveraging deep underwriting relationships, technical tax fluency, and thoughtful structuring. With increased M&A activity expected, CAC engages early, often months before tax credit insurance is formally pursued, to identify potential underwriting friction points and work

collaboratively with sponsors, counsel, and valuation advisors to develop well-supported appraisals and cost segregation analyses.

For sponsors navigating the interplay between acquisition costs, step-up mechanics, and tax credit monetization, CAC's Market insight and proactive advocacy provide a meaningful advantage in securing coverage on competitive terms where others may face structural resistance.

FEOC Insurability

OOB3 introduced complex FEOC compliance requirements that materially affect tax credit eligibility. Projects may face disqualification if significant components, supply chain elements, or ownership interests involve certain foreign entities, including those with ties to China. IRS Notice 2026-15, published on February 12, 2026 (the "FEOC Notice"), provides some clarity and certainty for developers, investors, and lenders alike, particularly with respect to the "material assistance" rules.

CAC's FEOC market survey findings confirm what we observed in our Q4 Market Update: underwriters remain cautious in the face of regulatory uncertainty. The complexity and open-ended nature of the FEOC rules have resulted in Market reluctance to provide affirmative coverage for losses arising from FEOC non-compliance. While the FEOC Notice provides helpful guidance regarding the material assistance rules, a number of questions remain regarding other aspects of the FEOC framework. Although underwriters are becoming more comfortable assessing risks related to the material assistance rules, there remains continued caution around other elements of FEOC, particularly with respect to Specified Foreign Entities (SFE) and Foreign-Influenced Entities (FIE). That said, certain underwriters are willing to review comprehensive tax memoranda and supporting legal opinions and, in some cases, may be prepared to offer coverage for a more narrowly defined set of FEOC-related issues.

Underwriters consistently emphasize that tax insurance is intended to cover identifiable legal risks rather than undefined or evolving regulatory frameworks. Until additional guidance provides a more concrete basis for underwriting analysis across the remaining FEOC issues, carriers have generally been unwilling to deploy meaningful capacity for FEOC-related exposure. However, once further guidance is issued and advisors are able to provide robust analysis applying finalized rules to specific fact patterns, CAC expects the market to recalibrate quickly.



CAC Advantage:

CAC has consistently been at the forefront of expanding insurability in the tax credit insurance market. In the summer of 2023, at a time when underwriters were still evaluating how to approach that exposure, CAC placed the first tax credit insurance

policy providing coverage for the domestic content adder. Our ability to achieve that result was driven by the depth of our tax technical expertise, the strength of our underwriting relationships, and our willingness to collaborate closely with carriers and clients to responsibly develop new coverage solutions.

There are clear parallels between OB3 and the early implementation phase of the IRA. In both instances, regulatory uncertainty initially constrained underwriting appetite for certain novel risks introduced by the legislation. Over time, thoughtful structuring, technical rigor, and constructive engagement with underwriters allow the market to evolve.

CAC's early and active engagement on FEOC issues provides clients with a meaningful advantage in an area where underwriting caution remains elevated. We are working closely with sponsors and their counsel to review FEOC-related memoranda and opinions, assess how underwriters are responding to emerging analyses, and frame submissions in a way that aligns with each underwriter's evolving risk tolerance. This proactive, technically grounded approach positions CAC's clients to move efficiently and competitively once additional FEOC guidance is issued.

Capacity and Pricing

Capacity

One of the most encouraging developments entering 2026 is the meaningful expansion of Market capacity.

By mid-2025, deployable capacity had contracted significantly, falling to approximately \$700–800 million per policy, down from roughly \$1.5 billion of capacity the prior year. That compression was driven by several factors, including insurers exiting the broader transactional liability market, underwriters transitioning between platforms, and carriers limiting capital deployment as they balanced tax credit exposure against non-tax risks.

As anticipated in CAC's prior Market updates, new capacity has begun to enter the Market. In Q1 2026:

- At least two new insurers have formally entered the primary tax credit insurance space;
- Several previously "quiet" insurers have re-entered the market, reactivating dedicated underwriting teams;
- Certain MGUs and MGAs have secured increased capacity commitments from their carrier partners.

Collectively, these developments are expected to add at least \$200 million of incremental deployable capacity in the near term.

Equally important, more underwriters are beginning to offer primary terms. Some of these underwriters migrated to new platforms during 2025 and were temporarily constrained by their backing carriers from leading insurance programs, contributing to last

year's bandwidth bottleneck. Other underwriters, who previously deployed only excess capacity, are now actively participating as primary underwriters.

This shift has important pricing implications. Prior to 2025, brokers typically prioritized underwriters offering primary terms when constructing large insurance programs. Once primary capacity constricted, competitive tension diminished, pricing firmed, and terms became less insured-favorable. The re-emergence of primary competition restores that dynamic to the Market.

As we move further into 2026, CAC expects underwriters that were previously excess-only participants to feel increasing pressure to offer primary terms. A broader base of lead underwriters strengthens the overall Market by deepening the underwriting bench ahead of the typical year-end surge.

While the number of consistent primary underwriters on larger programs remains concentrated, excess capital is becoming more readily available. Traditionally non-primary underwriters are increasingly willing to participate in follow-layer positions, making it materially more efficient to assemble large limit towers through a consortium approach.

The expansion in capacity appears both cyclical and structural. Cyclically, Q1 typically brings refreshed underwriting budgets and appetite resets. Structurally, the growth of the tax credit insurance product and the constrained conditions of 2025 signaled opportunity to new capacity providers.

CAC expects total deployable capacity to trend back toward the \$1B+ range per policy, though a return to the prior \$1.5B peak may take longer. Nonetheless, the risk of insufficient capacity for large transactions is materially lower in Q1 2026 than it was this time last year.

Underwriting bandwidth has also improved. Following the year-end surge, many teams entered Q1 with increased headcount and lighter pipelines. Initial quote indications are being delivered more quickly, in some cases within two business days, compared to extended response times during Q4. Underwriters are generally motivated to deploy capacity earlier in the year rather than risk underutilization.



CAC Advantage:

H1 2026 presents a meaningful execution advantage. Transactions placed outside of the year-end crunch typically benefit from improved responsiveness, greater competitive tension, and reduced pricing pressure. In contrast, late-Q4 placements in 2025 frequently faced elevated premiums and capacity constraints.

CAC capitalizes on this environment by engaging the Market early and strategically matching risk profiles with the appropriate underwriting platforms. New entrants and reactivated underwriters often have

differentiated niches, whether comfort with utility-scale solar, battery, or portfolio transactions, and thoughtful alignment between risk and underwriter is critical.

In an expanding but still disciplined Market, CAC's depth of underwriting relationships and active daily engagement across carriers ensures that coverage towers are constructed efficiently and competitively, with no viable capacity source left unexplored.

Pricing

The rapid escalation in premium rates observed over the past 12–18 months is beginning to moderate. By Q3 2025, tax credit insurance pricing had increased materially, particularly for smaller transactions, where premiums, in some cases, represented a significantly larger percentage of tax credit value than in prior years. Importantly, this upward pressure was driven primarily by supply-demand imbalance rather than increased project risk. Limited underwriting capacity amid strong transaction volume allowed carriers to command higher pricing and impose elevated minimum premiums.

In Q1 2026, as capacity expands and underwriting pipelines normalize, competitive dynamics are returning to the market.

CAC is observing:

- **Flat to modestly reduced pricing** on comparable risks relative to late 2025. For straightforward single asset solar ITC transactions, recent indications have come in approximately 10–15% lower in total premium compared to similar placements in Q4 2025.
- **Greater willingness to negotiate.** During the height of capacity constraints, many underwriters presented firm, non-negotiable terms. In Q1, we are seeing renewed flexibility both in premium and in select policy enhancements as underwriters compete to deploy capacity.
- **Persistent minimum premium floors.** While rate pressure has eased, minimum premiums remain elevated. Most carriers continue to require minimum premiums in the \$250,000–\$500,000 range. As a result, smaller credit transactions (e.g., sub-\$20 million credit sizes) may still face economic friction.

Barring an external shock, such as regulatory developments triggering a surge in transaction volume, we expect pricing to remain relatively stable through Q2. While a sharp increase in deal flow could temporarily strain capacity again, the presence of new entrants should dampen the magnitude of any future pricing spikes.



CAC Advantage:

As the largest dedicated tax insurance team in North America, CAC operates as a price maker, not a price taker.



CAC Advantage:

Our scale, technical fluency, and daily engagement with every active tax credit underwriter enable us to create competitive tension across the Market. In a hard Market, this positioning allows us to actively leverage competing capacity, push for improved pricing and terms, and ensure underwriters remain disciplined in their quoting approach.

Because CAC consistently brings high-quality, well-structured risks to Market, underwriters look to us as a bellwether for acceptable pricing levels. This Market credibility enables CAC to guide underwriters toward rational pricing floors while securing for our clients the full benefit of improving competitive conditions without sacrificing coverage quality.

Payment Structures

A subtle but meaningful shift in deal execution has emerged in the way underwriters structure premium payments across calendar years.

Historically, where deposit structures were permitted, insureds typically paid approximately 10% of the total premium at binding, with the remaining 90% due upon closing of the underlying transaction such as funding of a tax credit transfer or a Project’s achievement of substantial completion.

Beginning in late 2025, however, underwriters moved away from that model. The prevailing payment structure now requires:

- **20% of the premium payable at binding, and**
- **The remaining 80% due by the end of the next calendar year**, regardless of whether the underlying transaction has closed or project milestones have been achieved.

For example, a policy bound in Q4 2025 with a \$500,000 premium may require \$100,000 payable at binding and the remaining \$400,000 due by December 31, 2026, even if the project has not yet reached funding milestones. The policy incepts at binding, but failure to remit the deferred premium by the specified deadline may trigger cancellation. Underwriting fees remain fully due and non-refundable at binding.

This evolution reflects a broader reallocation of timing risk. Underwriters became increasingly concerned as project timelines extended well beyond initial expectations, leaving carriers reserving capacity for transactions that were delayed or never closed. Under the prior 10% deposit model, insurers frequently held substantial capacity across calendar years without receiving the corresponding premium.

By increasing the deposit to 20% and establishing a fixed outside payment date for the balance, underwriters ensure compensation for allocated capacity and mitigate the risk of that capacity being tied up indefinitely without remuneration. The result is a more disciplined capital deployment framework entering 2026.

CAC understands the rationale behind this shift and views it as a reflection of broader Market discipline rather than an adverse development. In the current capacity environment, the recalibration of deposit structures is a logical response to extended deal timelines and capital allocation pressures.

Importantly, CAC has already worked closely with both clients and underwriters to navigate these revised payment frameworks. By engaging early and aligning expectations on transaction milestones and financing timelines, we have been able to structure premium payment schedules that satisfy underwriter requirements while preserving meaningful flexibility for our clients.

Through close coordination with sponsors and their advisors, we ensure that payment arrangements are tailored to real-world deal execution, minimizing timing friction and supporting efficient transaction closings.

CAC’s Insights:

Amid a rapidly evolving Market, CAC continues to influence market behavior by advocating for disciplined underwriting, rational pricing, and transaction-aligned risk allocation. Leveraging deep relationships across underwriting teams, carrier leadership, and tax counsel, CAC is uniquely positioned to guide clients toward insurers whose expertise, capacity, and risk tolerance best support efficient and timely execution.

CAC’s approach is grounded in building durable trading partnerships. By aligning sponsors, counsel, and underwriters early in the process, CAC reduces structural friction, mitigates execution risk, and facilitates smooth progression from initial submission through binding. As capacity expands and insurers increasingly differentiate based on technical depth and risk appetite, CAC’s ability to navigate these distinctions provides clients with a measurable advantage in securing optimal coverage terms.

As recognized leaders in the Market, CAC closely monitors shifts in IRS enforcement priorities, regulatory developments, and transaction-driven demand cycles that shape underwriting dynamics. We engage proactively with clients and their advisors to contextualize these developments and assess their impact on current and prospective transactions.

If you would like to discuss how this quarter’s market trends may affect your pipeline or a specific placement, we welcome the opportunity to connect.



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We are committed to serve
our clients in a better and smarter way.

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