Investor FAQ: Change in Tax Election

Q: What new corporate structure are you considering should you revoke your REIT status?
A: If we revoke our REIT status, our publicly traded parent company (Hannon Armstrong Sustainable Infrastructure Capital, Inc) would become (subject to Board and other approvals) a taxable C-Corp, beginning with the 2024 tax year. We would also maintain our current corporate governance structure.

Q: Why is the company considering making this change?
A: We are considering discontinuing our REIT election for several reasons, including: (a) most of our recent investments and pipeline, including renewables and fuel transactions, are non-REIT qualifying; (b) we expect the C-corp structure will be tax efficient in light of our NOLs and opportunities to utilize other tax attributes (as more fully described below); and (c) remaining a REIT may create misperceptions regarding the company and its exposure to real estate risk.

Q: Would this potential change result in a change in strategy?
A: No, this change in our REIT status would not represent any change in our business strategy or the strategic direction of the company.

Q: Would the dividend policy change?
A: No, our dividend guidance of 5-8% growth in the dividend per year through 2024 (using a 2020 base year) is not expected to change. As we stated on our Investor Day in March 2023, we continue to expect the dividend will increase each year, and we expect the payout ratio will be 50-60% by 2030.

Q: If REIT status is discontinued, how will HASI achieve tax efficiency?
A: The company has a substantial amount of Net Operating Losses (which were > $500 million as of June 30, 2023). These Net Operating Losses are available to offset a large portion of U.S. federal income tax related to future earnings. We also expect to generate additional NOLs from new tax-efficient investments in the future. We also expect to utilize tax attributes from various project investments, and will consider investing in the tax equity tranche in certain projects.

Q: Would there be any accounting impacts of the tax election?
A: Yes, there likely would be several GAAP accounting impacts, including a non-cash Deferred Tax Liability recorded, which would have a corresponding expense entry. We would not expect the discontinuation of our REIT election to have any material implications to our Distributable Earnings metric.

Q: Would there be any adjustments to your earnings guidance as a result of this change?
A: No, earnings guidance is expected to be unchanged.

Q: How would the taxation of dividends be impacted?
A: Currently, the portion of the dividend that is taxable is taxed at an ordinary income tax rate. A transition in our tax status to a C-Corp, would have a similar profile in that a portion of the dividend may be a return of capital for tax purposes; however, the portion that is taxable may be taxed at a lower capital gains rate. There would be no tax consequence to dividends paid historically.