

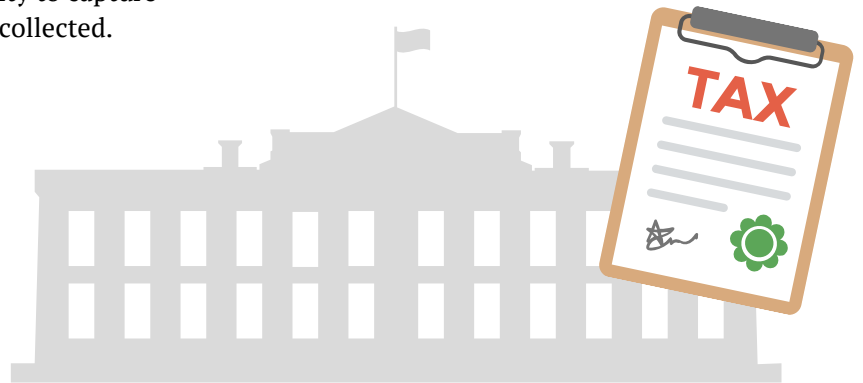


# President Signs Inflation Reduction Act 2022

On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (H.R. 5376). The \$740 billion Act raises revenue through a new 15% minimum tax on large, profitable corporations and a 1% excise tax on stock buybacks, as Democrats were intent on using the budget reconciliation measure to reduce the U.S. deficit by about \$300 billion.

Other revenue would come from stricter enforcement of tax compliance by the IRS. Enforcement-related funds, at \$45.6 billion, make up more than half of the total \$80 billion in additional appropriations. The IRS has said its goal is to reduce the tax gap by strengthening its ability to capture revenue from taxes that might otherwise not be collected.

The social spending package would also extend for three years the American Rescue Plan Act's expanded subsidies for coverage purchased through the Health Insurance Marketplaces; allow Medicare to negotiate prices for insulin and certain other drugs; implement tax changes and spending subsidies to address climate change.



## Top Level Highlights from Inflation Reduction Act 2022

### A 15% corporate alternative minimum tax on large corporations

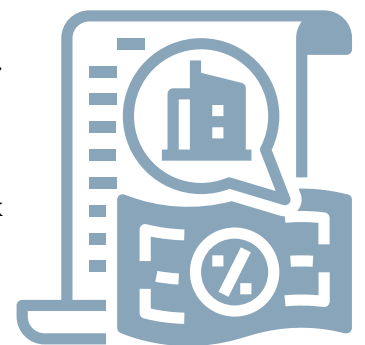
The minimum tax will apply if it exceeds the taxpayer's regular tax including its base erosion and anti-abuse tax (BEAT) for the tax year. An applicable corporation for a tax year is any corporation (other than an S corporation, regulated investment company (RIC), or a real estate investment trust (REIT) which meets the average annual adjusted financial statement income test ("Income Test") for one or more earlier tax years that ends after December 31, 2021.

### A 1% excise tax on repurchase of corporate stock

The Act imposes on each "covered corporation" a tax equal to 1% [of fair market value] of any stock of the corporation repurchased by the corporation during the tax year. This applies to repurchases of stock after December 31, 2022.

### Clean Energy Investment Credit

The Inflation Reduction Act of 2022 creates a new credit for investments in clean energy. This credit is available for property placed in service after 2024 until certain emissions targets are met or 2032, whichever is later. The base rate credit is 6% of the taxpayer's investment in qualified property for the year that property is placed in service. An increased credit up to 30% is available for investments in qualified facilities with a maximum output less than 1 megawatt that also meet certain other requirements. A bonus credit of 10% or 20% applies to qualified clean energy production projects located in certain low-income communities or on Tribal lands. This applies to property placed in service after December 31, 2024.

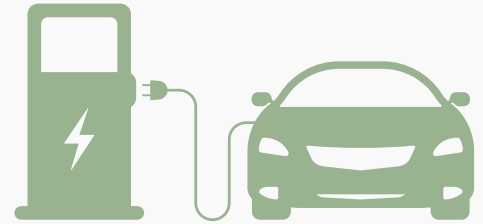


## Credits for new and used clean (EV) vehicles

Before the enactment of the Inflation Reduction Act of 2022, a taxpayer could claim a credit for each new qualified plug-in electric drive motor vehicle (NQPEDMV) placed in service during the tax year.

### Changes under the Inflation Reduction Act include (but not all listed):

- The NQPEDMV credit has been retitled the Clean Vehicle Credit.
- *Manufacturer limitation eliminated.*
- *Definition of "new clean vehicle" updated.*
- *Calculation has been updated* - The Act changes how the clean vehicle credit is calculated. Taxpayers get a \$3,750 credit for meeting the critical minerals requirement and a \$3,750 credit for meeting the battery component requirement.
- *IRS guidance requirement* - The IRS is required to issue such regulations or other guidance as it determines necessary to carry out the purposes of (the critical mineral and battery component requirements), including regulations or other guidance which provides for requirements for recordkeeping or information reporting for purposes of administering the requirements of Code Sec. 30D(e). The IRS is required to issue proposed guidance no later than December 31, 2022.
- Dealers must register with the IRS and meet other requirements to offer the election to their purchasers.



## Extension and Modification of Residential Clean Energy Credit

Before the enactment of the Inflation Reduction Act of 2022, individuals were allowed a personal tax credit, known as the residential energy efficient property (REEP) credit, for solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump, and biomass fuel property installed in homes in years between 2020 and 2024.



### Under the Inflation Reduction Act, the applicable rate is amended to:

- **26% for property placed in service before January 1, 2022**
- **30% for property placed in service after December 31, 2021, and before January 1, 2033**
- **26% for property placed in service after December 31, 2032, and before January 1, 2034**
- **22% for property placed in service after December 31, 2033, and before January 1, 2035**

## IRS Funding to Improve Taxpayer Service and Compliance

The Inflation Reduction Act of 2022 provides \$3,181,500,000 towards taxpayer services, including prefiling assistance and education, filing and account services, and taxpayer advocacy services.

Under the enforcement category, \$45,637,400,000 (which comprises over half of the total amount appropriated to the IRS) is appropriated to cover the following expenses:

- Determining and collecting owed taxes
- Providing legal and litigation support
- Conducting criminal investigations
- Monitoring digital assets and carrying out related compliance activities
- Enforcing criminal statute violations and other financial crimes pursuant to internal revenue laws

The Act allocates \$25,326,400,000 for operations expenses, such as rent payments, facilities services, postage, security, research, telecommunications, maintenance, and information technology development.

To help modernize the IRS' computer systems and upgrade related in-house technologies, the Act sets aside \$4,750,700,000. This amount also includes developing callback technology and maintaining legacy systems.

The appropriations are to be used at the discretion of the IRS commissioner and are made available until September 30, 2031.



The information provided in this review is a high level view of the Inflation Reduction Act 2022. Other items included in the Act are credits related to clean energy and clean hydrogen production, zero-emission nuclear power production and excise tax for drug manufacture, coal and Crude oil. If you have questions or concerns about the new Act contact your CPA so they can review with you how the changes may affect your tax planning in the future.