

## INFLATION REDUCTION ACT OF 2022 (H.R. 5376)

On Friday August 12th Congress passed the Inflation Reduction Act of 2022 (The Act) and President Biden signed it into law on August 16th, 2022.

### Summary of Key Tax Provisions:

#### Increase in IRS Funding:

The Act includes \$80 billion of increased funding to the IRS over the next 10 years. The additional funding is expected to be used to expand tax enforcement, update outdated processing systems and enhance operational support.

#### Corporate Minimum Tax:

Corporations with at least \$1 billion in income (calculated on adjusted financial statement (AFS) income) will have a new tax rate of 15%. Certain foreign owned corporations with book income over \$100 million will also be subject to the minimum tax. The tax will be effective for tax years beginning after December 31, 2022. Tax rates on individuals will not be affected.

#### Excise Tax on Stock Repurchases:

The Excise tax applies to publicly traded corporations. The tax would apply to repurchases after December 31, 2022. The excise tax of 1% would be assessed on the fair market value of any stock that is repurchased by a covered corporation. There are several exceptions to the tax such as:

- Tax-free reorganizations
- Stock that is contributed to a pension plan or ESOP
- Total annual repurchases of \$1 million or less
- Purchases treated as a dividend

#### Excess Business Losses

The Act extends the limitation for non-corporate taxpayers with business losses in excess of \$500,000 (married filing Jointly) and \$250,000 (other filing statuses) through 2028. This provision was originally expected to sunset at the end of 2025.

#### SALT Cap:

The \$10,000 state and local tax limit was not changed. In earlier versions of the bill, the SALT cap was going to be extended through 2026. The \$10,000 limit remains in place through 2025.

#### Affordable Care Act Premium Tax Credit:

The bill extends income thresholds to qualify for the medical insurance premium subsidies through 2025. The income limitations were temporarily lifted for 2021 and 2022 as adopted by the American Rescue Plan Act (ARPA). The income limitations were originally scheduled to expire at the end of 2022.

#### R&D Payroll Tax Credit:

The Act increased the maximum R&D Tax Credit that can be applied against payroll taxes. The allowed credit doubled for tax years beginning after December 31, 2022. Eligible small businesses can now reduce payroll taxes by up to \$500,000 annually up from the prior limit of \$250,000. Additionally, the credit can now apply to the Medicare portion of taxes and can be carried forward for any unused amounts.



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## Energy Credits:

The Act includes several changes to energy credits, including the following:



### Vehicle Credits:

Eligible taxpayers will be able to claim up to a \$7,500 tax credit on the purchase of a new electric "clean energy" vehicle and up to \$4,000 on the purchase of a qualifying used vehicle. The credits are subject to income limitations, price restrictions and have strict requirements on where the vehicle was manufactured or assembled. The Act extended the vehicle credit through 2032.



### Residential Credits:

Prior to the Act, residential energy improvements such as solar panels were eligible for a tax credit of 26% in 2022 and 22% in 2023. The Act increases the credit to 30% for years 2023-2032.

In addition, the Act also made several changes to residential improvements. Previously the credits were capped on a lifetime limit. Beginning in 2023, the lifetime limits will be replaced by a \$1,200 annual limit. The calculation of the credit is subject to additional limitations based on the type of improvement. Starting in 2025, taxpayers will need to report a manufacturer provided identification number to qualify for the credit.



### Section 179D:

The Section 179D (Commercial Buildings Energy Efficiency Tax Deduction) will be enhanced for projects placed-in-service beginning in 2023 as follows:

- Increased deduction levels up to \$5.00 per square foot
- Allows the Energy Policy Act (EPAct) 179D deduction to be taken by designers on building projects completed for not-for-profit entities, instrumentalities, and Tribal governments (similar to current government building provision)
- Retrofits can now alternatively qualify by showing at least a 25% decrease in Energy Use Intensity, with no energy simulation modeling required.
- Deduction reset - the deduction can now be taken on a specific commercial building every 3 years, and on a specific government building every 4 years (historically, the maximum deduction has been allowable only once over the life of a building)

Have questions or need more information? Please reach out to your Prager Metis professional.

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