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2022 Inflation Reduction Act – Tax Provisions

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In the past few years there have been many news articles announcing various proposed changes to current tax laws. Many of the proposals would have affected millions of taxpayers, but ultimately, they were snuffed out by political disagreements and a legislative branch that could not accomplish much tax reform - until now. On the President's desk this week is the Inflation Reduction Act. Let's cover what it means and who it will affect.

Large Corporation Alternative Minimum Tax – imposes a 15 percent minimum tax on corporate financial statement income on corporations with three-year annual average income in excess of $1 billion beginning after December 31, 2022. This new law aims to stop the abusive sheltering of income by large companies that were paying little to no tax. Taxing entities on financial statement-based income instead of taxable income is likely to lead to a lot of confusion and we expect a lot of perplexed affected taxpayers. Will this affect the stock market? Who knows!

Stock repurchase excise tax – creates a 1 percent federal excise tax on publicly traded US corporate stock which has been repurchased.

Increased R&D Credits – while there has and continues to be value on the table for companies that domestically spend on research and development activities, the Inflation Reduction Act plans to enhance and expand the credit, which was limited to $250,000, by raising the cap to $500,000. The qualifying small business in the first year of election, must have gross receipts of less than $5,000,000.

Electric vehicles – reborn are the incentives to purchase electric vehicles containing a certain percentage of US sourced components. This $7,500 credit for new cars and $4,000 credit for used cars can be taken on tax returns for individuals who's adjusted gross income is under $300,000 for a joint return, $225,000 for head of household and $150,000 for a single or married filing separate return. The credit also has a cap on the cost of the vehicle, eliminating the benefit for SUV's over $80,000 and cars over $55,000. Some other limits apply. Perhaps this is a benefit to vehicle manufacturers like Tesla who had exceeded the cap originally set by a quantity of vehicles produced by each manufacturer.

Individual flow through loss limitations - Extension of the loss limitations on pass through entities enacted in the 2017 Tax Cuts and Jobs Act (TCJA) has been extended for two years through 2028. This TCJA tax law limited the amount of business losses individuals can claim on their personal returns to offset non-business income to $250,000, indexed for inflation.

Funding the IRS – provides $80 billion in funding to the agency that needs desperate help to answer the phone. In all seriousness, the IRS needs a massive amount of money to get caught up on technology, but the funds are targeted to enforcement, operational support, and business system modernization. Of note, the bill stipulates that the funds are not to be used to increase taxes on a taxpayer with taxable income below $400,000. If a tax cheat isn't reporting any income, how will that help? Should we expect some improvement in how the agency handles and communicates with its taxpayers, and will we be seeing an increase in audits?

Can they even hire agents in this current economic crisis where accountants are hard to find with enrollment of accounting majors down at every institution across the United States? Will they hire and train successfully? Only time will tell.

What was left out –

No increase in tax rates for the higher earners as was originally expected – with the highest federal tax rate for individuals remaining at 37%.

Net investment income tax (3.8%) on active participation flow through businesses has been cancelled. Current active participants are allowed to exclude this income from the investment tax.

Carried Interest – while first passes of the Inflation Reduction Act included provisions to tax carried interest (income from investments related to active participation in funds) – as ordinary income, it seems that this group of taxpayers holds a grip on the policy makers and has once again dodged the bullet of higher tax rates

SALT, SALT and more SALT - the state and local tax cap on itemized deductions remains limited to $10,000 which means a big loss for constituents in California, New York and other states with high tax rates.

The Act has been passed by the House and now goes to the President, who has indicated he will sign off on it this week. As usual, please feel free to contact your SKP representative with any questions you have about how this Act may affect your tax position.