

*August 30, 2022*

# Inflation Reduction Act of 2022



Forbes America's Best Tax and Accounting Firms 2022  
Top 100 Firm & Regional Leader | Accounting Today 2022  
Top 100 Firm | Inside Public Accounting 2022  
Fastest Growing Firm | Inside Public Accounting 2022

# Inflation Reduction Act of 2022

**Andrea P. Sardone**  
*Today's Moderator*



# Today's Presenters



**Kevin F. Reilly**  
*J.D., CPA, CGMA*  
*Partner*



**Edward T. Yoder**  
*CPA, MSA*  
*Partner*



**Miriam Song**  
*J.D., LL.M.*  
*Senior Accountant*



**Ryan Figg**  
*CPA*  
*Senior Tax Account*

# Inflation Reduction Act of 2022

- Signed into law on August 16
- Slimmed-down version of the Build Back Better bill
- Affects large corporations, stock buybacks, renewable energy incentives, and increased IRS funding





# Corporate “Book” AMT



- ✓ Effective after December 31, 2022
- ✓ Introduces a 15% Alternative Minimum Tax on C Corporations
- ✓ Applies only to C Corporations:
  - With at least an average of \$1 Billion of book net income over the current year and prior two years
  - Or with \$100 Million average book net income for foreign-partnered multinational groups over the same period

# Corporate “Book” AMT

- ✓ Adjusted Financial Statement Income:
  - AMT is based on the Adjusted Financial Statement Income less the Corporate AMT Foreign Tax Credit if applicable
  - Potential to owe AMT Tax on a higher level of book income than the tax return's income when there are temporary or permanent book-to-tax differences



# Excise Tax on Corporate Stock Buybacks

- ✓ Effective after December 31, 2022
- ✓ Publicly Traded Corporations will pay a 1% tax on the fair market value of their stock that is repurchased during the taxable year
- ✓ Applies to purchases of corporate stock by a subsidiary (corporation or partnership that is more than 50% owned by the parent corporation)
- ✓ The excise tax will not be deductible, so there would be no corporate income tax offset





# Excise Tax on Corporate Stock Buybacks

- ✓ Exceptions:
  - Reorganizations with no gain or loss by shareholders
  - When contributed to an Employer-Sponsored Retirement Plan or Employee Stock Ownership Plans
  - The total value of stock repurchased during the taxable year does not exceed \$1 million
  - Repurchases made by Regulated Investment Company (RIC) or Real Estate Investment Trusts (REITs)
  - Repurchases made by a dealer in securities in the ordinary course of business
  - When the repurchase is treated as a dividend



# Residential Energy Credits: Form 5695

## Nonbusiness Energy Property (IRC section 25C)

- ✓ Includes: heat pumps, insulation, doors, windows (ex. heat pumps are more efficient than furnaces)
- ✓ For 2022:
  - The credit amount is 10% or 100% of the cost, depending on the type (this was the previous credit)
  - Lifetime limit of \$500
- ✓ For 2023:
  - The credit amount is 30% of the cost
  - The limit is \$1,200 annually





# Residential Energy Credits: Form 5695

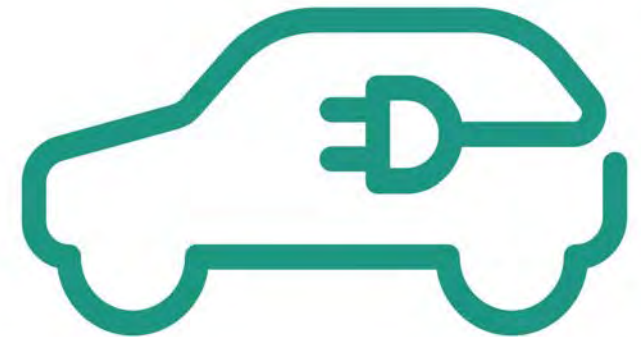
## Residential Energy Efficient Property (IRC section 25D)

- ✓ Renamed "Residential Clean Energy Credit"
- ✓ Includes: solar panels that generate electricity, wind energy, geothermal energy
- ✓ Credit is 30% for 2022-2032, 26% for 2033 (previously, 26% of cost for 2022, 22% for 2023)
- ✓ For 2023:
  - Added eligibility: battery storage technology expenditures (battery technology stores solar energy that was gathered)



# Modifications to the Clean Vehicle Credit

- ✓ If Critical Materials and Battery Components requirements are met
- ✓ Requirements that would render electric vehicles made with components manufactured by foreign entities of concern ineligible
- ✓ The requirement that the final assembly of the vehicle occurs in North America
- ✓ Eliminates the limit on the number of credit-eligible vehicles, but only one credit per vehicle
- ✓ Imposes limit based on taxpayer's income
- ✓ Allows transfer of the credit to a registered dealer in exchange for payment from that dealer
- ✓ Applies after 2022, Terminates after 2032



# Modifications to the Clean Vehicle Credit

- ✓ If Critical Materials (\$3,750) Extracted or Processed in the US or any country with which the US has a free trade agreement
- ✓ Applicable percentage:
  - 2023 – 40%
  - 2024 – 50%
  - 2025 – 60%
  - 2026 – 70%
  - After 2026 – 80%
- ✓ If Battery Components (\$3,750) are manufactured or assembled in North America
- ✓ Applicable percentage:
  - 2023 – 50%
  - 2024 – 60%
  - 2025 – 60%
  - 2026 – 70%
  - 2027 – 80%
  - 2028 – 90%
  - After 2028 – 100%



# Modifications to the Clean Vehicle Credit

- ✓ Income Threshold Amount
  - MFJ - \$300,000
  - HoH - \$225,000
  - Single - \$150,000
  
- ✓ Applicable limitation for each vehicle classification
  - Vans - \$80,000
  - SUV - \$80,000
  - Trucks - \$80,000
  - Other - \$55,000



# Credit for Previously Owned Clean Vehicles

- ✓ Qualifying previously owned clean vehicles to individual purchases whose AGI does not exceed a specified limit
- ✓ Lesser than \$4,000 or 30% of the sales price
- ✓ AGI limit
  - MFJ - \$150,000
  - HoH - \$112,500
  - Single - \$75,000
- ✓ The model year of which is at least 2 years earlier than the calendar year in which the taxpayer acquires the vehicle
- ✓ Sales price less than \$25,000
- ✓ First transfer since the date of enactment of the IRA
- ✓ Limited to one credit within a three-year period of the sale date

## Polling Question

Do you plan to take advantage of the new clean vehicle energy credits?

# Premium Tax Credits (Form 8962)

- ✓ 13 million of the 14.5 million households insured through the public marketplace are receiving subsidies (based on a sliding income scale)
- ✓ American Rescue Plan Act (2021) removed the 400% poverty level MAGI cap for 2021 and 2022
- ✓ Inflation Reduction Act (2022) extends treatment through the end of 2025
- ✓ Premium costs limited to 8.5% of income
- ✓ Credit is reconciled with any advance payments on Form 8962

Family Size	Poverty Level	400% of FPL
1	12,760	51,040
2	17,240	68,960
3	21,720	86,880
4	26,200	104,800
5	30,680	122,720
6	35,160	140,640



# What's Not Included in the Inflation Reduction Act but was Originally Discussed in BBB?

- ✓ **No increase** in corporate tax rate from 21% to 28%
- ✓ **No change** to the top marginal individual tax rate from 37% to 39.6%
- ✓ **No 5%-8% surcharge tax** on high-income individuals
- ✓ **No expansion** of 3.8% NII to active business income
- ✓ **No increase** in top capital gains tax rates from 20% to 25% or taxing unrealized capital gains with the removal of basis step-up
- ✓ **No repeal** of gain deferrals from 1031 LKE

# What's Not Included in the Inflation Reduction Act but was Originally Discussed in BBB?

- ✓ No extension of Child Tax Credit or child care access
- ✓ No change to 199A QBI deductions
- ✓ No changes to the \$10,000 SALT exemption amount or extension of the provision
- ✓ No changes to estate and gift exemptions
- ✓ No estate inclusion of grantor trusts
- ✓ No changes to the use of valuation discounts for transfers
- ✓ No R&D credit changes, immediate expensing, or expansion
- ✓ No reinstatement of ERC for Q4 2021
- ✓ Carried interest tax rates

## Polling Question

Which tax proposal were you previously most concerned about that was eventually not included in the Inflation Reduction Act?

# Why Does IRS Need Additional Funding?





# Why Does IRS Need Additional Funding?

- ✓ Current budget
  - \$700 million more than 2021 –11.9 billion 6% increase
  - Down from 2010 adjusted for inflation
  
- ✓ Employees
  - 2021 – 81,600 (including seasonal)
  - 2019 - 74,369
  - 2010 – 94,346 (15% more than 2021)



# Why Does IRS Need Additional Funding?

- ✓ Corporate audit rates
  - 2019 2.9%
  - Up by 100% since 2010
  - Large corporate audits decreased from 98% in 2010 to 23.9% in 2019
- ✓ Individual audits
  - 2019 0.25%
  - Down by 72% since 2010
  - 8.7% for returns with annual income over \$10M, 2.0% if annual income is \$5-\$10M, 1.3% if income is \$1-\$5M



# IRS Funding

- ✓ \$3.2 Billion for taxpayer services
- ✓ \$45.6 billion for enforcement
- ✓ \$25.3 billion for operations support
- ✓ \$4.7 billion for business system modernization
- ✓ 2 addition directives
  - IRS must report to Congress on the cost to develop a free direct e-file system
  - Increased IRS funding is not intended to raise taxes on taxpayers with taxable income below \$400,000
- ✓ The expectation is that this \$80 billion increase in IRS funding will generate more than \$124 billion in net revenue over a ten year period

## Polling Question

Are you worried that the changes in the IRS budget and enforcement efforts will have an impact on you personally or your business?

# Questions





## The Inflation Reduction Act Makes Few Alterations to the Tax Strategies of PBMares' Clients



TAX ALERT | August 16, 2022

Today, The Inflation Reduction Act of 2022 was enacted. Through its sweeping law changes on health care, climate, and taxes, the Act presents a few new opportunities for beneficial tax strategies. In general, the Act results in few tax increases to PBMares clients.

As tax advisors, here are five questions that we've been hearing:

Visit our blog at  
[www.pbmares.com/insights](http://www.pbmares.com/insights).



[www.pbmares.com](http://www.pbmares.com)

MARYLAND - Baltimore • Rockville

NORTH CAROLINA - Morehead City • New Bern

VIRGINIA - Fairfax • Fredericksburg • Harrisonburg • Newport News • Norfolk • Richmond • Warrenton • Williamsburg