

The Inflation Reduction Act – Key Tax Provisions

The Inflation Reduction Act (IRA) of 2022, a significantly scaled back version of the proposed "Build Back Better Act" introduced in 2021, was signed into law by President Joe Biden on August 16, 2022. The IRA aims to fight inflation, make health insurance and prescription drugs more affordable, and combat climate change, allocating nearly \$370 billion to energy security and clean energy programs over the next decade – the largest single investment made to reduce greenhouse gas emissions in U.S. history.

The main tax provisions applicable to individuals and corporations include:

Corporate alternative minimum tax - This will establish a 15% minimum tax rate on the adjusted financial statement income of corporations with average annual adjusted financial statement income of \$1 billion. Taxes on individuals and households won't be increased. Stock buybacks by corporations will face a 1% excise tax after December 31, 2022.

Extension of limitation on excess business losses - The Inflation Reduction Act extends the Tax Cuts and Jobs Act's limitation on excess business losses of noncorporate taxpayers for two more years, through 2028. It also provides expansion of the R&D Credit for small businesses by an additional \$250,000 toward the Medicare tax, in addition to the \$250,000 that can be applied against payroll tax liability.

Increase in IRS funding - This will include \$3.2 billion to increase taxpayer services, \$45.6 billion for IRS enforcement, \$25.3 billion for operations support and \$4.7 billion for technology upgrades over the next 10 years.

Prescription drug price reform - This will allow Medicare to negotiate the price of certain prescription drugs, bringing down the price beneficiaries will pay for their medications. Medicare recipients will have a \$2,000 cap on annual out-of-pocket prescription drug costs, starting in 2025.

Affordable Care Act (ACA) subsidy extension - This will extend the Premium Tax Credits, which were scheduled to expire at the end of the year, through 2025. Currently, medical insurance premiums under the ACA are subsidized by the federal government to lower premiums. Approximately 3 million Americans could have lost their health insurance if these subsidies weren't extended, according to the U.S. Department of Health and Human Services.

Energy security and climate change investments - This includes tax credits for households to offset energy costs, investments in clean energy production, and tax credits aimed at reducing carbon emissions.

As always, please do not hesitate to contact us with any questions about how this bill may impact you or your business.

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