Inflation Reduction Act Summary

On August 16, 2022, President Biden signed into law The Inflation Reduction Act ("IRA"). The Legislation primarily addresses energy/climate, health care and tax reform.

The health care provisions include allowing Medicare to negotiate prescription drug prices directly with pharmaceutical manufacturers, establishing a Part D out-of-pocket annual cap of $2,000 and subsidizing ACA health insurance premiums. In response to energy and climate issues, the bill includes billions in clean energy tax credits, residential and commercial building efficiency programs, and a number of other provisions designed to address such issues.

To pay for these programs, the reconciliation bill includes a 15 percent corporate minimum tax, prescription drug pricing reforms, and an increase in funding for IRS tax enforcement.

Below is a summary of certain provisions of the IRA which we hope will be of interest to you.

Individual Provisions

- Continuation of Affordable Care Act federal premium subsidies that lower the cost of health insurance from now until 2024. These provisions were due to expire at the end of 2022.

- Medicare will negotiate the price of certain prescription drugs. Medicare recipients will have a $2,000 cap on annual out-of-pocket prescription drug costs, starting in 2025. An increase in IRS funding of approximately $80 billion over 10 years, with nearly $46 billion for enforcement efforts such as "digital asset monitoring and compliance activities."

Energy and climate change More than $300 billion of climate and energy spending and tax breaks will be provided over the next 10 years, including

- Consumer tax credits for home energy efficiency and clean energy projects such as installation of energy-efficient new windows, doors, insulation, water heaters, and solar panels.
    - The existing federal tax credit that covers 30 percent of the expenditure on residential solar is extended through 2032 and will then be reduced to 26 percent in 2033, 22 percent in 2034, and expires at the end of 2034. The 30% credit rate

will apply to both qualified energy efficiency improvements and residential energy property expenditures. Further, the $500 lifetime credit limit is replaced with a $1,200 annual limit

  - $2,000 tax credit on heat pumps under which electricity is used to extract heat from outdoor air and pump it inside, or extract heat from indoor air and pump it outside, instead of burning gas like a traditional furnace. Alternatively, for qualifying lower income purchasers, there is available an up to an $8,000 rebate on a heat pump.

- New Electric Vehicle Credit. The IRA will revise the tax credit for purchases of new electric vehicles (EV)placed in service after December 31, 2022. Under current law, the credit is up to $7,500, with $5,000 of that calculated based on the battery capacity of the electric vehicle, and there is a manufacturer-specific phaseout once a manufacturer has sold at least 200,000 electric vehicles in the US after 2009. For new EVs as under current law, there’s a maximum credit of $7,500. However, the IRA vehicle tax credits are no longer limited by the number of vehicles sold but rather are restricted by the model's price and the purchaser's income, but allows only one credit per vehicle There are substantial new domestic content requirements for electric vehicle batteries to qualify for the credit which may significantly reduce the availability of the tax credit. Beginning after December 31, 2023 (1 year after the date that the other new electric vehicle credit provisions take effect), the new electric vehicle credit will not be available for joint filers with a modified adjusted gross income over $300,000, heads of household with a modified adjusted gross income over $225,000, and single filers with a modified adjusted gross income over $150,000. These credits will be transferable to the dealer selling the vehicle, provided the dealer registers with Treasury and satisfies certain requirements.

- Used Electric Vehicle Credit. The IRA will establish a new tax credit for purchases of used electric vehicles with a model year at least 2 years earlier than the calendar year in which the taxpayer acquires the vehicle. This credit will be the lesser of $4,000 and 30% of the sales price of the vehicle but the vehicle can’t cost more than $25,000. The credits will be available through 2032. This credit is subject to income limits that are half of the limits for new electric vehicles, so $150,000 for joint filers, $112,500 for heads of household, and $75,000 for single filers. This credit will not be available to a taxpayer who has been allowed the credit within the 3 years before the sale. These credits will be transferable to the dealer selling the vehicle, provided the dealer registers with Treasury and satisfies certain requirements. Commencing on January 1, 2024, consumers can elect to take that money as a point-of-sale rebate.

- Production tax credits for the manufacture of solar panels, wind turbines, batteries, and critical minerals processing
- Enhanced investment tax credits for renewable energy activities such as building clean technology manufacturing facilities that make wind turbines and solar panels.
- Additional tax credits for clean commercial transportation, industrial manufacturing, and production of biofuels.
- Credits for the production of clean hydrogen
- Credits for the production of zero-emission nuclear power
- The reinstatement of a Superfund excise tax on crude oil and certain imported petroleum products at a rate of 16.4 cents per barrel (indexed to inflation) beginning January 1, 2023.
- The permanent extension of an excise tax on coal from US mines.

Business Provisions

- A 15% corporate alternative minimum tax (AMT) on corporations (excluding S corporations, regulated investment companies and real estate investment trusts) with more than $1 billion of annual adjusted financial statement income (AFSI) during a three-year measurement period, effective for tax years beginning after December 31, 2022. This provision is projected to impact large corporations that have previously reported high income on their financial statements but have significantly reduced – or even eliminated – their cash tax liability by, for example, using stock-based compensation. Very few corporations are expected to be subject to the Corporate AMT

- A 1% excise tax on the fair market value of any stock that is repurchased by a U.S. publicly traded corporation (and certain US subsidiaries of publicly traded non-US corporations) or its "specified affiliates" (generally, corporations or partnerships of which the corporation owns more than 50%) during the tax year. The excise tax is subject to several exceptions, including carve-outs for repurchases that are part of a tax-free reorganization, contributions to employee retirement or stock ownership plans, repurchases that are treated as dividends, and corporations that repurchase stock with a total value of no more than $1 million during a taxable year. The excise tax applies to repurchases of stock after December 31, 2022. The excise tax could also be triggered in transactions not conventionally viewed as stock repurchases, including:

- Mergers or other reorganizations involving cash payments to the target's shareholders to the extent that such payments are funded with the target's cash or debt incurred or assumed by the target in the transaction.
- Payments of cash in lieu of fractional shares.
- Payments to dissenters.
- Reorganizations that use a "split-off" structure.

Tax credits to incentivize investments in green technologies.

- An increase in Research Credit Against Payroll Tax for Small Businesses. The IRA increases from $250,000 to $500,000 the limit on the amount of research credit that qualified small businesses may elect to treat as a credit against their payroll tax liability. Applies to taxable years beginning after 2022.

- A new excise tax on drug producers who fail to comply with new drug pricing requirements.

- Extension of the limitation on excess business losses of noncorporate taxpayers. Losses will be disallowed for taxable years beginning in 2021 through 2028.

Please feel free to contact Rona (rona@lex-life.com) or Kris (kris@lex-life.com) if you would like additional information regarding the IRA.