

A grey play button icon pointing to the right, located to the left of the title.

## Tax Implications of the Inflation Reduction Act of 2022

By James K. O'Connor, CPA

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (The Act) after its passage by both the Senate and House. The majority of the revenue-raising tax changes will only effect very large businesses, so most businesses and taxpayers will not be negatively affected by The Act.

### The Act includes the following tax provisions:

**Corporate Taxes**—The Act imposes a 15 percent corporate alternative minimum tax (AMT) which has also been referred to as the “book minimum tax.” The book minimum tax will be applied to a company’s “book” or financial statement earnings as opposed to the traditional system of basing the tax calculation off the company’s taxable income after adjusting for book/tax differences. Corporations will be allowed to claim tax credits and depreciation tax deductions against the AMT and will be eligible to claim a tax credit against the regular corporate tax for AMT paid in prior years, to the extent the regular tax liability in any year exceeds 15 percent of the corporation’s adjusted financial statement income. This AMT will only apply to corporations (other than an S corporations, regulated investment companies, or real estate investment trusts) with average annual adjusted financial statement income greater than \$1 billion.

**Stock Buyback Tax**—The Act will assess a one percent excise tax on stock buybacks of domestic corporations which are traded on an established securities market. The tax is intended to impact the largest companies that utilize stock buybacks as a means to manipulate stock prices.

**Energy Security and Climate Change Investments**—The Act includes numerous investments in climate protection, including tax credits for households to offset energy costs, investments in clean energy production, and tax credits aimed at reducing carbon emissions. The Act includes a \$4,000 tax credit for lower and middle-income buyers for the purchase of **used** electric vehicles, and up to a \$7,500 tax credit for **new** electric vehicles.

**IRS Tax Enforcement**—The IRS has been sounding the alarm for years about being underfunded and unable to deliver on its basic duties. The bill invests \$80 billion in the nation’s tax agency over the next 10 years. The IRS funding includes funding for taxpayer services, enforcement, operations support, and business systems modernization.

**Increase in Qualified Small Business Payroll Tax Credit for Increasing Research Activities**—The Act includes an extension of the limitation rules for deducting excess business losses for non-corporate taxpayers through 2029. Excess business losses are the amount in which business deductions exceed gross business income. This provision would limit such losses to \$500,000 (married filing jointly, \$250,000 others) per year with both amounts indexed for inflation. The Tax Cuts and Jobs Act created this limitation, which was set to expire in 2026.

*continued*

continued

**Prescription Drug Price Reform**—The Act will allow Medicare to negotiate the price of certain prescription drugs with the intent of 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**—Currently, medical insurance premiums under the ACA are subsidized by the federal government in order to lower premiums. These subsidies, which were scheduled to expire at the end of this year, will be extended through 2025.

## What's NOT Included in the Act

As the Act included many provisions from the Build Back Better Bill that did not pass last year, it's important to highlight those provisions that were left out of the Act and thus remain unchanged:

- No changes to the estate and gift tax rules.
- No changes to carried interest partnership treatment.
- No increases to the individual tax rates on high income earners.
- No change to the long-term capital gain tax rates applicable to individuals.
- No increase to the corporate income tax rate, which remains at a flat 21 percent (this is separate from the book minimum tax discussed above).
- No change to the qualified small business stock exclusion.

If you have any questions or if you would like to discuss your specific issue, please contact your RGCO Advisor.



### About the Authors:

*James K. O'Connor is a shareholder who began his career in public accounting in 1999 and joined Rivero, Gordimer & Company in 2002. His areas of concentration include tax preparation, planning and consultation for closely held businesses, sales tax resolution issues, and representation of clients before the Internal Revenue Service and Florida Department of Revenue.*

Contact Mr. O'Connor at 813-875-7774 or [joconnor@rgcocpa.com](mailto:joconnor@rgcocpa.com).

**NEED MORE HELP?** Contact Rivero, Gordimer & Company in Tampa, Florida by calling 813-875-7774 or visiting our website at [www.rgcocpa.com](http://www.rgcocpa.com).

© Rivero, Gordimer & Company, P.A.

