

### Inflation Reduction Act of 2022 Signed Into Law

On Tuesday, August 16, 2022, President Biden signed into law the “Inflation Reduction Act,” a bill that passed the House and Senate by votes along party lines.<sup>1</sup> While many of the personal income tax provisions originally proposed as part of the Build Back Better Act proposals in 2021 were not ultimately included in the legislation, this legislation will still impact taxpayers.

#### Relevant Provisions

1. **15% Corporate Alternative Minimum Tax:** This provision places a 15% minimum tax on corporations with more than \$1 billion of average annual income over a three-year period. Notably, the \$1 billion measurement is based on income reported on financial statements (“book income”), rather than on taxable income. This tax will begin for taxable years after December 31, 2022.
2. **1% Excise Tax on Stock Buybacks:** Effective January 1, 2023, a 1% excise tax will be imposed on the fair market value of any stock repurchase by a publicly traded company. Historically, corporations have used stock buybacks as a means to distribute income to shareholders at a lower tax rate than dividends.
3. **\$80 billion in Additional IRS Funding:** Among the most publicized portions of the law, the Inflation Reduction Act will allocate \$80 billion to the IRS. Section 1031(1)(A)(ii) of the law directs that \$45.6 billion of this will be allocated to increased tax enforcement activities. Congressional Democrats argue that this spending could raise in excess of \$200 billion in additional revenue.<sup>2</sup>
4. **Medicare Part D Cost Cap:** This provision will cap out of pocket expenses under Medicare Part D for prescriptions at \$4,000 in 2024 and \$2,000 per year, beginning in 2025 (this figure will increase with inflation).
5. **Affordable Care Act Subsidy Extension:** The Affordable Care Act health insurance premium subsidies (provided for individuals making up to 400% of the federal poverty level) which were scheduled to expire this fall have been extended through 2025.

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<sup>1</sup> Inflation Reduction Act of 2022, H.R. 5376, 117<sup>th</sup> Cong. (2022). Available at <https://www.congress.gov/bill/117th-congress/house-bill/5376/text> (last accessed August 18, 2022).

<sup>2</sup> Senate Democrats, Summary: Closing Tax Loopholes in the Inflation Reduction Act. Available at [https://www.democrats.senate.gov/imo/media/doc/summary\\_closing\\_tax\\_loopholes\\_in\\_the\\_inflation\\_reduction\\_act\\_of\\_2022.pdf](https://www.democrats.senate.gov/imo/media/doc/summary_closing_tax_loopholes_in_the_inflation_reduction_act_of_2022.pdf) (last accessed August 18, 2022).

- 6. Electric vehicle Tax Credit:** This measure, aimed at incentivizing the purchase of electric vehicles containing US-sourced components, will allow a \$7,500 credit for new cars and \$4,000 credit for used cars on the tax returns of individuals whose adjusted gross income is under \$300,000 (married filing jointly) or \$150,000 (single or married filing separate). 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. Additional restrictions apply.

Notably absent from the legislation were any changes to the current \$10,000 cap on the State and Local Tax (SALT) deduction. The cap on the SALT deduction is scheduled to sunset at the end of 2025, but some Congressional Democrats from high tax states had indicated that they would not support a reconciliation package that did not include changes to the current \$10,000 cap. The Inflation Reduction Act makes no changes to the SALT deduction, which will remain capped at \$10,000 until the end of 2025.

The legislation also does not include changes to the taxation of carried interest. Early iterations of the bill included language intended to limit the beneficial tax treatment of carried interest by requiring fund managers to hold portfolio assets five years instead of three years to receive a 20% long-term capital gains rate (as opposed to being treated as short term capital gains). This language was removed during the reconciliation process, and no changes were made to the carried interest provisions of the tax code.

Should you have any questions surrounding the Inflation Reduction Act or its impact on your finances, please reach out to your Summit Financial advisor.

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