Tax implications of the Inflation Reduction Act

by Todd Gebhardt, Director of Tax Services, Commerce Trust Company

In August, President Joe Biden signed the Inflation Reduction Act (the Act), a sweeping $750 billion legislative agenda focused on promoting clean energy, lowering health care costs and reducing the national deficit. The Act represents the largest climate investment in the nation's history – more than $365 billion – with the goal of reducing U.S. carbon emissions by roughly 40% by 2030.

A proposed surtax on Americans with income greater than $400,000 – a cornerstone of 2021's Build Back Better framework and the provision that could have had the largest impact on high-net worth taxpayers – was not included in the final legislation.

Key tax-related changes in the Act include:

15% corporate minimum tax. The Act establishes a 15% minimum tax on corporations with average annual adjusted financial statement income greater than $1 billion. This new provision is effective for taxable years beginning after December 31, 2022.[1] Exemptions to this rule include S corporations, regulated investment companies and real estate investment trusts.

Stock buyback tax. A 1% excise tax on corporate stock repurchases, or "buybacks," also goes into effect in the 2023 tax year. Exclusions from this tax include repurchased stock contributions to retirement accounts, pensions and employee-stock ownership plans.

Increased IRS funding. The Act will fund a massive expansion of the Internal Revenue Service (IRS). The agency's budget will increase approximately $80 billion over 10 years in support of four main categories: enforcement, operations support, business system modernization and taxpayer services.

Clean energy credits for corporations. The Act creates or extends several corporate tax credits and incentives as part of the plan to help reduce U.S. greenhouse gas emissions.

Extension of pass-through business losses. The Act extends the current limitation on deducting excess business losses for noncorporate taxpayers, or individuals and trusts, through 2028. This limitation, established under the Tax Cuts and Jobs Act of 2017, was scheduled to expire on December 31, 2026.[2]

Energy efficiency and health care-related tax credits. There are new consumer tax credits on purchases of residential energy efficient items, such as HVAC systems and rooftop solar equipment. The Act also provides electric vehicle tax credits for lower- and middle-income individuals and families of up to $7,500 on qualifying new clean vehicles and up to $4,000 on used clean vehicles.[3] The Act allows Medicare the ability to negotiate drug costs, which could lower the cost of certain medications for seniors, as well as extends premium subsidies for low-income individuals who purchase health insurance through the Affordable Care Act exchanges.[4]

If you have questions regarding the tax-related changes of the Inflation Reduction Act, please contact your Commerce Trust advisor.

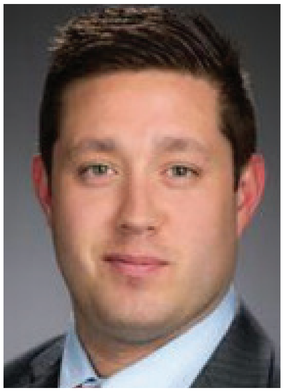
https://www.whitehouse.gov

[1]Forbes, "The tax impact of the Inflation Reduction Act," Aug. 4, 2022

[2]Tax Foundation, "Details & analysis of the Inflation Reduction Act tax provisions, Aug. 12, 2022.

[3]CNN, "EV tax credits just got totally revamped. Here's what car buyers need to know," Aug. 17, 2022.

[4]U.S. News & World Report, "What the Inflation Reduction Act means for you," Aug. 8, 2022.



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Todd is the director of tax services for Commerce Trust Company. In addition to tax planning and consulting services to that client base, his group annually prepares more than 120 returns for charitable trusts and private foundations and more than 350 returns for individual, estate, gift, trust, and partnership clients of Commerce Trust. Todd also co-manages Commerce Trust's annual tax return preparation process, including reviewing and maintaining Commerce Trust's accounting system and the integration of this system with the organization's external vendor. Todd earned his Bachelor of Science in accounting from Maryville University of St. Louis.