

The Inflation Reduction Act of 2022

After numerous weeks of grueling negotiations between Senate Democrats and their constituents, the Inflation Reduction Act of 2022 was passed through the Senate on Sunday, August 6, 2022. The bill is proposed to make a significant impact regarding healthcare, climate change, and rebuilding the Internal Revenue Service to reduce the national deficit with efforts to provide relief from the current staggering inflation. With high hopes of making it through the “Democrat-controlled House”, the vote on the proposed bill is set to take place on Friday, August 12th, and if passed, could end up on President Biden’s desk for signature. “For the most part, this isn’t a bill about 2022,” said Marc Goldwein, the senior policy director at the Committee for a Responsible Federal Budget. “This is about 2023, 2024, 2025. It’s about helping the Federal Reserve to fight against persistent inflation. It’s not going to bring down the inflation rate in the month of September.”

So, what does this mean for the American economy? Let’s discuss the key factors of this highly anticipated bill.



15% Corporate Minimum Tax

As one of the main efforts to raise revenue and force the wealthy taxpayers and corporations to pay their fair share of tax, the proposal is set to enforce a 15% corporate minimum tax on adjusted financial statement income for corporations making over \$1 billion in profits. This particular provision is expected to bring in over \$300 billion in revenue. In addition, a 1% excise tax on company stock buybacks will raise an additional \$74 billion in revenue, a provision that was introduced to replace the carried interest tax loophole that was scrapped from the initial proposal.

IRS Funding

Over a 10-year period, the proposal is set to fund the IRS a total of \$80 billion to strengthen tax enforcement and compliance on wealthy taxpayers. Funding is said to be distributed between taxpayer services, tax enforcement, operations/support, and business systems modernization and remain accessible until September 30, 2031. According to legislation, this means the IRS will conduct more tax audits on larger corporations and wealthier individuals to minimize high tax avoidance and fraud. It is said that taxpayers who make less than \$400,000 in taxable income will not see an increase in tax. If successful, it is estimated that the IRS will collect over \$200 billion dollars in revenue.



Climate Change

In respects to climate change and energy reform, more than \$300 billion will be invested in sustainable energy technologies and devices. Analysts claim that the proposal will reduce US carbon emissions by up to 40% by 2030. The proposal also includes incentives to lessen the rising costs of electricity with more renewable energy sources and hopefully stimulating Americans to switch to electricity to power their homes and cars. Rebates and tax credits will be offered to taxpayers who purchase energy efficient equipment. The credits would “include a \$4,000 tax credit for lower- and middle-income individuals to buy a used electric vehicle and a tax credit of up to \$7,500 to buy new clean vehicles, alongside tax credits on consumer purchases of heat pumps, electric HVAC and water systems, and rooftop solar equipment.” These efforts are said to make large improvements in combating climate change.



Lowered Cost of Prescription Drugs

With many Americans suffering from the rising cost of health care, this provision is deemed to help make prescription drugs more affordable for the average consumer, but with some limitations. The bill will also allow Medicare to negotiate prices of specific costly medications that are prescribed by doctors and pharmacies. A three-year extension was also granted on healthcare subsidies in the Affordable Care Act which kept premiums at \$10 per month for a large majority of taxpayers that were covered by the federal health insurance exchange. The bill will also put a cap of \$2,000 on out-of-pocket prescription drug costs for people on Medicare effective through 2025.

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