News & Updates

GRIFFING & COMPANY, P.C.

Certified Public Accountants and Consultants

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A Deeper Understanding of the Inflation Reduction Act of 2022

In continuation of our previous newsletter regarding the Inflation Reduction Act (IRA) of 2022, we wanted to provide you with additional details regarding the recently passed bill, known as the IRA, which was signed into law on August 16th, 2022. Here are some additional highlights of the Act that we think are important to know.

Within the Act, a sum of $80 Billion has been set aside for IRS implementation and improvements. This is a massive increase for the IRS as the annual budget is normally in the $14 billion dollar range. The U.S. Secretary of the Treasury, Janet L. Yellen said she is allotting the IRS six months to draft a detailed plan on how exactly the funds will be distributed among the institution. Here is a projected breakdown of the fund's distribution through September 30, 2031.

- $45.7 billion for Tax Enforcement
- $25.3 billion for operations support, which entails hiring additional people
- $4.75 billion is for business systems — upgrading computer systems, which could also help with enforcement.
- $3.2 billion would go to taxpayer services

The IRS and Secretary of the Treasury, Janet L. Yellen, mentioned that the additional funding would not be used to increase the chance of an audit for taxpayers making less than $400,000.

Alternative Minimum & Excise Tax

The 15% alternative minimum tax will be imposed on adjusted financial statement income for large corporations with book income over $1 billion dollars. Meaning, book income to which the 15% applied is after making adjustments for the AMT, foreign tax credit and any depreciation taken for tax purposes that exceeds any depreciation taken for book purposes; S corporations, regulated investment companies or real estate investment trusts are not included. This tax would apply to taxable years beginning after December 31, 2022. There are approximately 150 companies that fall into this mandatory tax.

The IRA also added a 1% excise tax on the repurchase of stock, after December 31st, 2022, of any domestic corporation whose stock is traded on an established securities market. Only repurchases that are treated as redemptions for tax purposes are subject to the tax. A $1 million exemption is provided, which is increased to the extent the corporation issues additional stock during the tax year, including stock issued or provided to employees of the corporation or employees of certain affiliates of the corporation. There are questions regarding this tax that have yet to be addressed. For instance, it is unclear how preferred stock would be treated for purposes of these rules. IRS will likely issue regs to clarify many of the outstanding questions.

The act would also extend the Tax Cuts and Jobs Act's limitation on excess business losses of noncorporate taxpayers by two years, through 2028 and expand R&D Credit for eligible start-ups by an additional $250,000 toward the Medicare tax, in addition to the $250,000 of research credit that can be applied against payroll tax liability for eligible start-up businesses.

Healthcare Credits

The act is expected to enable Medicare to negotiate drug prices on popular medications, such as insulin. For Medicare Part D beneficiaries, the bill will limit insulin payments to $35 a month starting in 2023 and for insulin given through durable medical equipment including those who use insulin pumps under Medicare Part B, with no deductible. The provision eliminates the 5% coinsurance for catastrophic coverage in Medicare Part D in 2024 and adds a cap on out-of-pocket costs for Medicare Part D recipients of $2,000 per year, which is expected to take effect in 2025. Starting in 2026, Medicare will begin negotiating the price of 10 drugs and increase every year after that. A list of the first 10 drugs selected for negotiation is expected to be made public in 2023. Beginning in 2024, drug manufacturers will have to pay a rebate to Medicare if they raise the price of their medications faster than inflation, impeding manufacturers abilities to hike prices.

Green Energy Provisions

Electric Vehicle Tax Credit

Fully electric vehicles have come a long way since they first came to the modern market now offering sportier models, more efficient batteries and faster charge times — allowing consumers to travel farther on one single charge. These “go-green” vehicles don’t use gas-powered engines, allowing many to save potentially thousands of dollars each year on gas alone. And with the Infrastructure Investment and Jobs Act allocation of $7.5 billion to states and local governments to help increase public charging station availability nationwide, consumers should find it easier to adopt energy efficient cars.

In addition, many qualify for a tax credit. Though there were some changes to the credit as a result of the Inflation Reduction Act of 2022, the maximum amount of the credit remains $7,500. To claim the credit, several criteria must be met, such as the vehicle must draw propulsion energy from a battery with at least five kilowatt hours of capacity, and the consumers income must fall under a certain threshold (i.e., $150,000 for single filers, $300,000 for joint filers and $225,000 for heads of households). And for new vehicles sold after Aug. 16, 2022, only vehicles whose final assembly is in North America will qualify.

IRS.gov provides an index of manufacturers to help determine if a particular brand and model year qualifies for the tax benefit. The Department of Energy provides a list of model year 2022 and early model year 2023 electric vehicles that meet the final assembly requirement. And keep in mind that beginning with vehicles acquired after 2023, purchasers may transfer the credit to the dealer (meaning the credit could be applied to lower your cash outlay for the car rather than waiting to receive the benefit when you file your tax return).

There is also a new 30% credit, up to a $4,000 maximum, for taxpayers who buy a qualifying used "clean vehicle" after 2022 and before 2032. To qualify, however, the modified adjusted gross income must be under a certain threshold (i.e., under $75,000 for single filers, $150,000 for joint filers and $112,500 for heads of household).

Note that there are also price caps that apply to both the new and used vehicle credits. For new cars, the credit is not allowed for cars with a manufacturer's suggested retail price over $55,000 or for vans, SUVs or pickup trucks with a manufacturer's suggested retail price over $80,000. The sales price for any used vehicle must be $25,000 or less.

Green Energy Credit - Home Improvements

Installing equipment such as solar panels, solar hot water heaters, certain wind turbines and fuel cells may be an effective way for consumers to lower their utility bill and potentially save on their taxes. The Inflation Reduction Act of 2022 expanded on the tax incentives. Consumers are now eligible for a tax credit up to 30% of the costs for energy saving home improvements, including energy-efficient doors, skylights, and windows.

Projects that began construction before 2025 (2035 if geothermal property) and are placed in service after 2021 are eligible for a 30% credit. There is no longer a phase-out provision in place. For projects placed in service in 2021 or earlier, prior rules remain in place, and the credit is reduced to 26%. And for projects placed in service after 2024, a similar credit remains with a few new stipulations. You'll need to have the manufacturer's statement that certifies that the components meet the requirements.

There is a $600 credit cap for windows or skylights, $250 for one door, or $500 for multiple. Homeowners could get up to $2,000 in total annual credit applied for natural gas heat pumps, electric or natural gas heaters and biomass stoves or boilers. The bill also establishes several home energy rebate programs worth up to $8,000 for heating and cooling appliances, up to $840 for stove, cooktops, range ovens, and clothes dryers, up to $4,000 on circuit breakers, $1,600 for insulation and ventilation, and $2,500 for improvements to wiring on the home.

To qualify for the rebate, a family's total annual income must be less than 150% of the median income where they live. Also, a rebate cannot exceed 50% of the cost of a qualified electrification project if the family's annual income is between 80% and 150% of the area median income. Homeowners can utilize as many of the credits possible up to $14,000. Normally, users who can reduce their energy use by 20% across their entire home would be eligible for the maximum rebate of $2,000 or half the cost of the retrofit project, whichever is less or $4,000 if reduced by more than 35%.

The rates double for lower income households whose income is less than 80% of an area's average income. "For eligible home improvements after 2024, no credit will be allowed unless the manufacturer of any purchased item creates a product identification number for the item, and the person claiming the credit includes the number on his or her tax return." (Kiplinger) Consumers are also anticipating the 30% residential energy credit if they install solar energy equipment on their home anytime through the end of 2032. The credit will begin to drop in 2033 to 26% and then to 22% in 2034. The credit then expires after 2034 unless the credit is extended.

Energy Provisions for Businesses

There are also many incentives to encourage businesses to decrease their carbon footprint and become more environmentally sustainable. When certain criteria are met, businesses may be able to claim tax credits for items such as:

- Electricity produced from certain renewable sources (including geothermal, solar and wind facilities)
- Energy efficient home improvements (for eligible contractors and manufactured home manufacturers)
- Carbon oxide sequestration
- Zero-emission nuclear power production
- Alternate fuels

Although this is a general overview of the Inflation Reduction Act of 2022, a substantial amount of guidance is still needed from the IRS to clarify the verbiage and use of the proposals made. Griffing & Company, P.C. strives to provide our clients with the most up-to-date information on proposed rules and tax regulations and how they could potentially affect our clientele. If you have any questions regarding the Act and the information provided, please contact our office to speak with our highly knowledgeable staff. We are always here to help!

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