
Inflation Reduction Act of 2022

On August 16, 2022, President Joe Biden signed into law H.R. 5376, the Inflation Reduction Act of 2022 (IRA-2022). This massive, complex bill has multiple major purposes, including:

1. Reducing the federal deficit
2. Making significant changes to healthcare in the U.S.
3. Spurring a transition to secure, domestic sources of clean, renewable energy while reducing the carbon emissions fueling climate change.

What follows is a brief, high-level summary of some of the more notable provisions of this new law.

Reducing the Federal Deficit

IRA -2022 targets deficit reduction by significantly increasing revenues received by the federal government:

- **Corporate Alternative Minimum Tax:** This provision establishes a new¹ Alternative Minimum Tax (AMT) of 15% on domestic corporations with \$1 billion or more in average annual earnings in the previous three years. S corporations, regulated investment companies, and real estate investment trusts are excluded.²
- **Excise tax on repurchase of corporate stock:** IRA-2022 levies a 1.0% excise tax on the fair market value of stock repurchased by a publicly traded domestic corporation, with certain exceptions.²
- **Increased funding for the Internal Revenue Service (IRS):** The Act provides additional funding for the Internal Revenue Service (IRS) for taxpayer services and enforcement, including for operations support, business systems modernization, and the development of a free, direct e-file tax return system. Additional funds are provided for the Department of the Treasury Inspector General for tax Administration the Office of Tax Policy, the Tax Court, and Treasury department offices.
- **Extension of Loss Limitation:** IRA-2022 extends the tax provision limiting excess losses of noncorporate taxpayers two years, through 2028.

¹ A previous version of a corporate AMT was eliminated by the Tax Cuts and Jobs Act of 2017.

² Effective for tax years beginning after December 31, 2022.

Inflation Reduction Act of 2022

Healthcare Changes

IRA-2022 makes notable changes to the provision of healthcare in the U.S., including to health insurance available under the Patient Protection and Affordable Care Act (PPACA – Obamacare) and to prescription medications available to Medicare beneficiaries under Medicare Part D. The Medicare program is administered by the Centers for Medicare and Medicaid Services (CMS).

1. Patient Protection and Affordable Care Act Expanded Subsidies – The American Rescue Plan Act of 2021, for calendar 2021 and 2022, expanded eligibility for the Premium Tax Credit (PTC) under the PPACA as well as limiting the percentage of household income that eligible households might be required to contribute toward the premium. IRA-2022 extends these enhanced subsidies to 2023, 2024, and 2025.
2. Drug Price Negotiations – The Act requires CMS to begin negotiating the price of certain medications. Under this provision, CMS must negotiate maximum prices for brand-name drugs that do not have other generic equivalents and that account for the greatest Medicare spending. CMS must negotiate the price of 10 drugs in 2026, 15 drugs in 2027 and 2028, and 20 drugs in 2029 and later. Drug manufacturers that fail to comply with the negotiation requirements are subject to civil penalties and excise taxes.
3. Prescription Drug Inflation Rebates – IRA-2022 requires drug manufacturers to issue rebates to the CMS for brand-name drugs without generic equivalents that cost \$100 or more per year per individual, and for which prices increase faster than inflation. Manufacturers which fail to comply are subject to civil penalties.
4. Medicare Part “D” Improvements and Maximum Out-of-Pocket Caps – Beginning in 2024, the Act eliminates beneficiary cost-sharing above the annual out-of-pocket spending threshold (catastrophic coverage), as well as expanding eligibility for the Part D Low-Income subsidy. For the period 2024-2029, the new law limits Part D Premium increases to no more than 6% per year. In 2025, the Act caps the annual out-of-pocket spending threshold at \$2,000, (with annual adjustments thereafter), as well as creating a program under which drug manufacturers provide discounts to beneficiaries who have incurred costs above the annual deductible. Additionally in 2025, the new law establishes a process through which certain beneficiaries may have their out-of-pocket monthly costs capped and paid in monthly installments.

Inflation Reduction Act of 2022

Healthcare Changes (continued)

5. Other Miscellaneous Changes – Under the Medicare prescription drug benefit, beginning in 2023, IRA-2022 eliminates any cost-sharing for recommended adult vaccines, thus making them free of cost. In addition, the bill caps cost-sharing for a month’s supply of covered insulin products at (1) for 2023 through 2025, \$35; and (2) beginning in 2026, \$35, 25% of the government’s negotiated price, or 25% of the plan’s negotiated price, whichever is less.

Energy and Climate

A significant portion of IRA-2022 is devoted to energy and climate issues. Lowering energy costs, increasing domestic production of clean, renewable energy, and reducing the release of greenhouse gases are among the primary goals of this section of the Act. Additional goals include enhancing national energy security as well as creating new job and economic opportunities. The Act targets these goals using a combination of tax credits, grants, and loans, as well as other government assistance. Many of the tax benefits are enhanced if certain prevailing wage, apprenticeship, or domestically produced content¹ requirements are met. A brief description of a few of these incentives follows:

- **Clean electricity and reducing carbon emissions:** Including credits for investments in, and production of, energy from specified renewable energy sources such as wind, biomass, geothermal, or solar. Credits for carbon oxide sequestration and continued operation of certain existing nuclear power generating facilities are also included.
- **Clean fuels:** Incentives for the production of biodiesel, renewable diesel, sustainable aviation fuel, and clean hydrogen are available.
- **Clean energy and efficiency incentives for individuals:** The Act extends and expands credits for homeowners who add certain energy efficiency improvements to a primary residence. Additional deductions are available to owners of commercial buildings who make energy improvements meeting certain standards. The tax credit for developers who build and sell qualifying energy-efficient homes has been extended and increased.

¹ Such as iron, steel, or other manufactured components.

Inflation Reduction Act of 2022

Energy and Climate (continued)

- **Clean vehicles:** The new law expands and extends a nonrefundable tax credit for the purchase of a qualifying plug-in electric vehicle (EV). IRA-2022 also creates a new tax credit for the purchasers of a previously owned plug-in electric or fuel cell vehicle, as well as a new tax credit for qualified commercial clean vehicles.
- **Investment in clean energy manufacturing and energy security:** The Act extends and expands the Advanced Energy Project Credit. This credit, generally, is available for investments in projects that reequip, expand, or establish a manufacturing facility for the production or recycling of renewable energy property, or which reequips a manufacturing facility with equipment designed to reduce greenhouse gas emissions by at least 20%. The new law also introduces a production tax credit (PTC) which can be claimed for the domestic production and sale of qualifying solar and wind components.
- **Reinstatement of Superfund:** IRA-2022 permanently reinstates Superfund excise taxes on domestic crude oil and imported petroleum products. Revenues from the excise tax finance the Hazardous superfund Trust Fund.
- **Incentives for clean electricity and clean transportation:** The legislation creates a new clean electricity production tax credit (PTC) for the sale of domestically produced electricity with a greenhouse gas emissions rate not greater than zero. The Act also creates a new clean electricity investment tax credit (ITC), for investment in qualifying zero-emissions electricity generation facilities or energy storage technology. Further, IRA-2022 treats any property qualifying for the clean electric PTC or ITC as 5-year property under the MACRS depreciation system. Beginning in 2025, a new tax credit for domestic production of clean fuel will be available.
- **Targeted spending:** IRA-2022 also includes funding for a number of targeted goals, for example, to address disproportionate environmental and public health problems in disadvantage communities or to reduce air pollution at ports and airports. Such spending also includes funds to give farmers and ranchers the tools needed to address the current climate crisis, as well as resources targeted at protecting communities from wildfires.

Inflation Reduction Act of 2022

Seek Professional Guidance

Many provisions in the Inflation Reduction Act of 2022 involve complex areas of law. The Internal Revenue Service (IRS), as well as other branches of the federal government, will need to create and issue guidance explaining how the various sections of the Act are to be applied.

To receive maximum benefit from the Act, the advice and guidance of trained, experienced income tax, legal, and other professionals is highly recommended.