TAX NEWS

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Inflation Reduction Act

The *Inflation Reduction Act* (IRA) signed by President Biden August 16 includes a variety of tax provisions which will impact U.S. businesses and individuals. While some of the changes have received a great deal of media attention, others may come as a surprise to those who have not been following the legislative process closely. Generally, the changes implemented in the IRA fall into one of eight broad categories:

- Extending the health insurance premium tax credit provisions of the *American Rescue Plan Act of 2021* through 2025
- Changing the tax credits for electricity produced from some renewable resources, the energy tax credit and certain fuels
- Extending state and local tax (SALT) limitations
- Adding research credit flexibility
- Extending excess business losses (EBLs)
- Increasing IRS appropriations by $80 billion to improve taxpayer services, increase enforcement and fund other activities
- Establishing a 15% corporate alternative minimum tax
- Imposing a 1% excise tax on corporate stock repurchases

Details of several of these IRA provisions are discussed in the following sections.

Extension of expanded eligibility for the premium tax credit

The *American Rescue Plan Act of 2021* (ARPA) expanded eligibility for the premium tax credit (PTC) by eliminating the phaseout for households with annual incomes of more than 400% of the federal poverty line for 2021 and 2022. The PTC is refundable credit which helps you pay your premiums for health insurance purchased through the Health Insurance Marketplace. The IRA allows you to take advantage of the expanded PTC eligibility until 2025.

Also extended until 2025 is the ARPA provision which increased the amounts of the PTC you are eligible to receive by adjusting the percentage of annual income you are expected to contribute toward your health insurance premiums.

Clean energy and efficiency provisions

The IRA includes 30 provisions which implement a broad range of tax incentives to encourage the use of clean energy and improve energy efficiency. Some of the more notable incentives include:

- A tax credit of up to $7,500 for buyers of qualifying plug-in electric and fuel cell vehicles with a manufacturer's suggested retail price of up to $80,000 for vans, SUVs or pickup trucks, and $55,000 for other vehicles
- A new tax credit of up to $4,000 for buyers of previously owned plug-in and fuel cell vehicles that is limited to 30% of the vehicle's purchase price
- A new tax credit of up to $7,500 for qualified commercial clean vehicles weighing less than 14,000 pounds and up to $40,000 for larger vehicles
- Increasing the 10% tax credit for qualified energy efficiency improvements and expenditures for residential energy property to 30% and extending the credit with an annual limit of $600 per item ($1,200) through 2032

- Extending the residential clean energy credit for purchase of solar electric property, solar water heating property, fuel cells, geothermal heat pumps, small wind energy property and biomass fuel property through 2034
- Updating the energy efficiency requirements for claiming the deduction for installing certain energy-saving systems
- Extending the tax credit available to contractors for building and selling qualified energy-efficient new homes through 2032

SALT limitation extension

The IRA extended the $10,000 ($5,000 MFS) state and local tax (SALT) limitation through 2026. The $10,000 cap on the SALT deduction that was included in the T*ax Cuts and Jobs Act* was set to expire December 31, 2025.

Extension of excess business loss limitation

An excess business loss is the amount by which the deductions attributable to trades and businesses exceed either the aggregate gross income or gain attributable to the activities, or $270,000 for 2022 ($540,000 for married couples filing jointly), adjusting for inflation. For taxpayers other than C corporations, a current year deduction for excess business losses was temporarily disallowed through 2026 with those losses being treated as net operating loss carryover to the following year. The IRA extended the temporary limitation through 2028.

Increased IRS funding

The IRA appropriated $80 billion to the IRS which will remain available for the agency to spend through 2031. This money has been allocated in the following manner:

- $45.6 billion for tax enforcement activities like hiring more enforcement agents, providing legal support and investing in investigative technology
- $24.3 billion for operations support, including such items as rent, facilities, printing, security and information technology
- $3.2 billion for taxpayer services such as filing and account services, prefiling assistance and education
- $4.8 billion for business systems modernization which will allow the IRS to upgrade the systems it uses to administer taxpayer services, operations and cybersecurity
- $558 million to oversee the administration of the funds provided under the IRA

The IRS still had more than 10 million unprocessed individual returns as of July 2022. The additional funding will help the agency in addressing the return backlog, update its outdated technology and correct inefficiencies within the organization. However, it's also likely the added funding will result in the IRS scrutinizing more returns and sending out more correspondence to taxpayers.

So long as you retain the necessary financial records and can provide the documentation needed to support any deductions or credits claimed, the added IRS funding should not be a concern.

We are here to help

If you have any questions about the IRA or the impact it may have on your taxes, please reach out to a KerberRose Trusted Advisor. The IRA is a complex piece of legislation which will affect both businesses and individual taxpayers for years to come. We can help you make sense of the changes the IRA made to the tax laws and ensure you are receiving the maximum possible tax savings.

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