Inflation Reduction Act of 2022 – What Does This Mean for You?

On August 16, 2022, President Joe Biden signed into law the Inflation Reduction Act of 2022 ("IR Act") with great fanfare. This was the culmination of over a year of work by the Democrat-controlled Congress to pass sweeping, non-COVID related, legislation. While the IR Act is substantial legislation, it falls well-short of the Build Back Better Act proposed in 2021 but never passed.

By way of background, in the latter half of 2021, there was a tremendous amount of legislative activity to attempt to pass the massive Build Back Better Act ("BBB Act") originally proposed at $3.5 trillion. The BBB Act was aimed primarily at significant tax reform, especially regarding assessing more taxes on higher income and higher net worth individuals, and businesses. It also sought to combat climate change and expand affordable healthcare. Congress attempted to pass the BBB Act through the process of reconciliation which would allow a bill to pass with a mere majority of the votes in the House and Senate. This would allow the Democrat-controlled Congress to avoid Republican objections and lack of support. Unfortunately, the price of the BBB Act was too high even for some of the Congressional Democrats. Subsequent revisions to, and downsizing of, the BBB Act proposal also failed to attract enough votes.

If it had passed, the BBB Act would have significantly impacted tax planning for high income and high net worth individuals. It also would have imposed new taxes on billionaires and corporate businesses. Many well-established estate and income tax planning strategies would have been eliminated or severely curtailed. Many of the proposed provisions would have affected many of our clients.

Now that the IR Act has passed and signed into law, it is instructive to briefly summarize what is **NOT** included in this piece of legislation:

1. No increases in personal income tax or capital gains tax rates.
2. No increases in income tax rates for individuals with million-dollar incomes.
3. No modifications to the net investment income tax to include certain income from S corporation owners.
4. No provisions to impose a billionaire's income tax or surcharge.
5. No provisions seeking to modify the ability to do Roth IRA conversions for high income and high net worth individuals.
6. No provisions to accelerate the reduction of the estate and gift tax exemption amounts.
7. No provisions that would curtail the use of grantor trusts and other wealth transfer and estate tax planning strategies.
8. No provisions to fully restore the state and local tax ("SALT") deduction.

0015567XX 08/2022

The IR Act passed without a single Republican Congressional vote. Unlike the BBB Act, the IR Act is primarily aimed at healthcare and clean energy, not tax reform. Some of the provisions in the IR Act include: expanding Affordable Care Act subsidies for those who need to buy health insurance on the healthcare exchange, for an additional three years; various tax credits are being offered for a variety of clean energy sources and related manufacturing; money will be spent on agricultural conservation and improvements to federal buildings and highways; and other expenditures will be on climate preservation and resilience.

To pay for the expenditures, The IR Act is expected to raise nearly $740 billion in revenue. Some of these measures include:

a. **Corporate Minimum Tax** – corporations with $1 billion or more in average annual earnings would pay a minimum of 15 percent in taxes in tax years starting after December 31, 2022. It is estimated to affect approximately 150 of the largest U.S. companies, many of which pay relatively little, if any, taxes. Calculations will be based upon book income rather than traditional taxable income measures.

b. **Stock Buyback Tax** – publicly traded companies that buy back their stock would often do so to maintain stock share prices. With some exceptions, however, stock buyback programs will be subject to a new 1 percent excise tax starting after December 31, 2022.

c. **Cap on Business Losses** – caps on excess business losses were originally set to sunset after December 31, 2025. The cap has been extended through December 31, 2028, however.

d. **Increased IRS Enforcement** – the IRS is expected to increase tax enforcement on wealthy taxpayers now that the IR Act will provide $80 billion to upgrade systems, increase staff, improve compliance, and increase audits on individuals making more than $400,000 per year.

e. **Medicare Prescription Drugs** – Medicare is now authorized to negotiate with pharmaceutical companies for the price of certain prescription drugs.

Conclusion

As you can tell, while the BBB Act would have significantly affected many of our clients directly, the IR Act has a less direct impact. The IR Act is significant legislation, particularly with respect to its focus on affordable healthcare and combatting climate change. While tax reform measures were not included in this bill, it remains a priority for President Biden and the Democratic members of Congress.

This summary is not meant to be all-inclusive and is general education in nature. As you can tell, the details are complicated. As a result, you are encouraged to seek the advice of your own tax and legal advisors. As further legislative developments occur, we will be sure to let you know how they may impact you, your family and your business.

For More Information Contact:

The information presented is designed to provide general information regarding the subject matter covered. It is not intended to serve as legal, tax or other financial advice related to individual situations, because each person's legal, tax and financial situation is different. Specific advice needs to be tailored to your particular situation. Therefore, please consult with your own attorney, tax professional and/or other advisors regarding your specific situation.

Laws are complex and subject to change. The information presented is based on current interpretation of the laws. We encourage readers to seek personalized advice from a qualified professional regarding their personal financial circumstances and objectives.

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