

A Note from the Accountant's Corner: Sept-2022



Greetings from the Accountant's Corner

As you begin to engage the dawning of a new fall season, I trust you had a safe, enjoyable, and relaxing summer and are ready to “get back to business,” and the normalcy of life. This return to business as usual must include a brief conversation about taxes and what, if anything, has changed since the start of summer. The good news is that you haven't missed much. Aside from the usual in-fighting in Congress, the only significant change occurring on Capitol Hill was

the recently passed *Inflation Reduction Act* signed into law on Tuesday, August 16, 2022. Here is a brief summary of its impact on business & individual taxpayers:



Green Energy:

Amongst other changes that will impact less than 1% of Americans (and beyond the scope of this letter) was the plug-in electric vehicle credit, which is now called the Clean Vehicle Credit and includes fuel-cell and hydrogen vehicles, is extended through 2032, and the previous 200,000 vehicle cap per manufacturer is lifted beginning in 2023. In addition to the \$7,500 credit for new vehicles, there is a new \$4,000 credit for used, plug-in vehicles purchased. Buyers also have the option of getting the credit as a price reduction at the time of purchase rather than waiting until tax-time. However, the legislation also puts limits on the price of eligible vehicles and incomes of eligible taxpayers. These restrictions may limit the vehicles eligible for the credit for some period of time. These new provisions also end the per-manufacturer limit for the \$7,500 tax credit for electric vehicle purchases, which is a boost for makers like Tesla, Inc. But the new legislation mandates that the vehicles be built in North America and automakers will have to quickly end a reliance on China for the battery supply chain.

The \$500 lifetime Nonbusiness Energy Property Credit transforms into a \$1,200 annual credit in 2023. Rebates of up to \$14,000 would be available to assist in installation of certain energy-efficient home installations and rebates of up to \$4,000, or \$8,000 for low- and moderate-income households, for retrofitting homes based on projected energy savings. Rebates may in some cases be available at the time of sale.

The Residential Energy Efficient Property Credit, which includes solar and small wind installations, which was already starting to phase out, was extended as a 30% credit through 2032. Small businesses can qualify for tax deductions of up to \$1 per square foot for energy-efficient expenditures and a 30% credit for conversion to clean vehicles.

Healthcare:

The new legislation permits Medicare to negotiate lower drug prices (up to 10 drugs in 2026, another 15 in each of 2027 & 2028, and another 20 annually starting in 2029) and puts a cap on annual out-of-pocket costs at \$2,000 per year for seniors enrolled in Medicare Part D.

Revenue raisers:

A new corporate minimum tax of 15% will be imposed on large corporations with an average “book income” of over \$1 billion, and a 1% excise tax on the value of stock buybacks. This new minimum corporate tax would affect fewer than 150 companies in a given year. Last-minute changes to the legislation reduced the scope of the tax in an effort to protect private equity as well as businesses that invest heavily in equipment and facilities, such as manufacturers.

Deficit reduction:

In support of the name of the legislation, the bill was estimated to reduce inflation by around \$300 billion over the next 10 years, although the figure is subject to much debate, and by most accounts, won't be felt for some time. This legislation will also support the paying down of the government's budget deficit with the increase in corporate taxes.

Research & development:

The new provisions could benefit many small business startups, allowing them to potentially double the amount they can claim on the research and development tax credit from \$250,000 to \$500,000 per year against payroll taxes. Under current law small businesses that may not have enough income tax liability to take advantage of their research and development credit can apply up to \$250,000 of the credit toward their social security payroll tax liability. To qualify for the expanded credit, the small business would need to have less than \$5 million of gross receipts and be less than five years old. The Inflation Reduction Act would permit an additional credit of up to \$250,000 to be applied against the Medicare payroll tax for tax years starting after 2022.

IRS Increased Funding:

The Inflation Reduction Act also increases the IRS' budget by \$80 billion over 10 years, which almost doubles its existing budget. Here are some noteworthy budget breakdowns:

1. More than half of this amount (about \$45.5 billion) goes to enforcement. We can therefore expect, among other enforcement actions, an increase in audit rates. Stay tuned.
2. Over \$25 billion goes to operations support and an additional \$5 billion to modernization of business systems.
3. \$15 billion of the total goes towards developing a free direct e-file system.
4. Less than 5% of the total goes to taxpayer service, which suggests that there will be continued, extended telephone wait times for the foreseeable future.
5. The increased enforcement efforts are projected to bring in a net surplus of \$124 billion of collections over the next ten years according to the Congressional Budget Office.

In summary, it's fair to say the *Inflation Reduction Act* may not impact the bottom-line for all of us, but there could be some potential savings (energy tax credits, potential lower drug cost, & reduced inflation) on the horizon. But we may all be impacted, for the good or bad, by the IRS' increased tax enforcement efforts. While some of this enforcement funding will include chasing after bad-actors, rest assured that many more audits, notices and tax inquiries are coming. So now that we know, let's continue to be vigilant, accurate & resolute proponents of good record-keeping practices. If we take this advice into consideration, perhaps we'll conclude, as the saying goes, “don't sweat the small stuff.” Please feel free to visit our online Newsletter (<https://4was.com/newsletter.html>) for more detailed and update-to-date tax information. You should also contact your tax

professional to learn how these tax changes impact your specific tax outcomes. Until next time....