

Summary of Inflation Reduction Act of 2022

This document provides a summary of key tax provisions contained in the Inflation Reduction Act, [P.L. 117-169](#), that was signed into law on August 16, 2022. The enacted bill includes many nontax provisions aimed at promoting clean energy initiatives as well as prescription drug pricing reform. Further research and analysis are recommended based on each client's facts and circumstances.

Corporate alternative minimum tax

15% tax on the excess of the corporation's **adjusted financial statement income** (AFSI) over its corporate AMT foreign tax credit

Applies to certain large corporations:

- Average annual AFSI of more than \$1 billion for the past three consecutive tax years
- OR for members of certain foreign-parented multinational groups with a combined AFSI is \$1 billion for the past three consecutive tax years and the member has average AFSI of more than \$100 million
- Does not include S corporations, regulated investment companies or real estate investment trusts (REIT)

Effective for tax years beginning after Dec. 31, 2022.

AFSI is defined by Sec. 56A, and the most common adjustment will be tax depreciation taken in excess of book depreciation.

An AMT foreign tax credit (Sec. 59(l)) is available for taxpayers who qualify for a foreign tax credit.

Generates a minimum tax credit under Sec. 53 that can be used against regular tax liability in future years.

Excise tax on repurchase of corporate stock

1% excise tax on the fair market value (FMV) of any stock repurchased (Sec. 4501)

Applies to any domestic corporation whose stock is traded on an established securities market.

Effective to repurchases after Dec. 31, 2022.

Excise tax is reduced by the FMV of new stock issued by the corporation during the tax year.

Does not apply to:

- Repurchases that are part of a reorganization under Sec. 368(a) – no gain/loss is recognized by the shareholder
- Repurchased stock that is contributed to an employer-sponsored retirement plan, employee stock ownership plan or similar plan
- Total value of the stock repurchased during a tax year is \$1 million or less

Affordable Care Act subsidies

Extends the Sec. 36B premium tax credit through 2025 to taxpayers whose household income is greater than 400% of the poverty line.

Clean energy provisions for individuals

Nonbusiness energy property credit – now called **energy-efficient home improvement credit** (Sec. 25C)

- Credit extended through Dec. 31, 2032

Residential energy-efficient property credit – now called **residential clean energy credit** (Sec. 25D)

- Credit extended through Dec. 31, 2034.
- Provisions generally apply to expenditures made after Dec. 31, 2021.
- Property that qualified for this credit includes solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump and biomass fuel property.
- Qualified battery storage technology expenditures after Dec. 31, 2022 also now qualify.

Energy-efficient home credit (Sec. 45L), available to eligible contractors, extended through 2032, with changes in the amount of the credit and modifications to the energy savings requirements (now up to \$5,000).

Clean vehicle credits

Clean vehicle credit (Sec. 30D), formerly known as new qualified plug-in electric drive motor vehicle credit, now expires after Dec. 31, 2032.

Changes in the credit are generally effective for vehicles placed in service after Dec. 31, 2022.

Changes in the determination of the credit – \$3,750 for meeting the critical materials requirement and \$3,750 for meeting the battery component requirement

Credit phase-out: modified adjusted gross income (MAGI) \$300,000 joint returns, \$225,000 heads of household and \$150,000 for single

If qualifying vehicle purchased (or entered a written binding contract) between Jan. 1, 2022 and Aug. 15, 2022, but placed it in service on or after Aug. 16, 2022 – former Sec. 30D credit rules apply

Imposes a requirement that the final assembly of the vehicle must occur in North America (effective as of the signing of the bill on Aug. 16, 2022).

Removes the limitation on the number of vehicles eligible for the credit.

Adds price caps – credit is not allowed for cars with a suggested retail price of over \$55,000 or \$80,000 for vans, SUVs or pickup trucks.

Imposes a requirement that a percentage of critical materials used in the car must have been extracted or processed in the U.S. or in a country with which the U.S. has a free trade agreement or recycled in North America (percentage phases in from 40% before 2024 to up to 80% after 2026).

One clean vehicle credit is allowed per vehicle (and as part of new reporting requirements, the seller is required to provide the vehicle identification number (VIN) of the vehicle).

Buyer can elect on the purchase date to transfer the clean vehicle credit to the dealer for payment, but still must meet the MAGI requirements – otherwise the buyer must recapture the payment for income tax purposes.

New credit for used clean vehicles (Sec. 25E):

- Up to \$4,000
- MAGI under \$150,000 joint returns, \$112,500 for heads of household and \$75,000 for single
- Sales price must be \$25,000 or less
- Applies to vehicles acquired after Dec. 31, 2022

Clean vehicle credits (continued)

New credit for qualified commercial clean vehicles (Sec. 45W):

- Applies to vehicles acquired and placed in service after Dec. 31, 2022.
- Maximum credit per vehicle is \$7,500 for vehicles less than 14,000 lbs. or \$40,000 for heavier vehicles.
- Lesser of:
 - 15% of the vehicle's basis or 30% for vehicles not powered by a gasoline or diesel engine OR
 - The "incremental cost" of the vehicle over the cost of a comparable vehicle powered solely by a gasoline or diesel engine

Clean energy manufacturing credits

Extension of Sec. 48C advanced energy project credit, effective Jan. 1, 2023

New credit Sec. 45X for U.S. production of various photovoltaic cells and other solar and wind energy property

New credit Sec. 45Y for the production of energy at qualified facilities placed in service after Dec. 31, 2024, with a greenhouse gas emissions rate of zero

New credit Sec. 48E clean energy electricity investment credit for property placed in service after Dec. 31, 2024

New credit Sec. 45Z for clean transportation fuels produced in the U.S. after Dec. 31, 2024

Energy provisions for businesses

Sec. 45 credit for electricity produced from certain renewable sources is extended through 2024 and the base credit amount is modified.

Sec. 48 energy credit is extended through 2024, adds additional qualifying property and modifies the calculation of the credit.

Sec. 45Q credit for carbon oxide sequestration is modified and extended. Construction of the facility must begin before Jan. 1, 2033.

New Sec. 45U credit for zero-emission nuclear power production credit based on the kilowatt hours of electricity produced and sold by the taxpayer at a qualified nuclear power facility after Dec. 31, 2023

Several alternative fuel credits are extended through 2024 (Sec. 40A biodiesel and renewable fuel credit, Sec. 6426 biodiesel mixture credit Sec. 6426 alternative fuel credit, Sec. 6427 payments for alternative fuels and Sec. 40 second-generation biofuel incentives).

New Sec. 40B sustainable aviation fuel credit (effective after Dec. 31, 2022)

New Sec. 45V credit for the production of clean hydrogen (effective after Dec. 31, 2022)

Method changed for determining the amount of the Sec. 179D energy-efficient commercial buildings deduction as well as the lifetime cap on the deduction (changes are effective after Dec. 31, 2022)

New Sec. 6417 allows eligible taxpayers to elect certain energy credits as tax payments.

For facilities owned by S corporations or partnerships, the S corporation or partner will make the election.

New Sec. 6418 allows eligible taxpayers to transfer certain energy credits for cash (effective for tax years beginning after Dec. 31, 2022).

Other tax provisions

Sec. 41(h) research credit against payroll tax for small business is increased by \$250,000 for tax years beginning after Dec. 31, 2022.

Sec. 461(l)(1) limitation on excess business losses (\$250,000/\$500,000 for joint filers) of noncorporate taxpayers is extended through 2028.

Excise tax on drug manufacturers is imposed when they are not in compliance with drug price negotiation requirements.

IRS funding

The act appropriates approximately \$80 billion in funds for the IRS. Funds are directed to taxpayer services (\$3 billion), enforcement (\$46 billion), operations (\$25 billion) and business systems modernization (\$5 billion).

This copyrighted resource is provided exclusively to Tax Section members and should not be shared, reproduced or used by anyone who is not a member of the Tax Section without explicit consent from the AICPA Tax Section. See our [terms and conditions](#). For information about content licensing, please email copyright-permissions@aicpa-cima.com.

Founded by AICPA and CIMA, the Association of International Certified Professional Accountants powers leaders in accounting and finance around the globe.