Updates to Tax Law After INFLATION REDUCTION ACT

equitable
MONEY CLUB

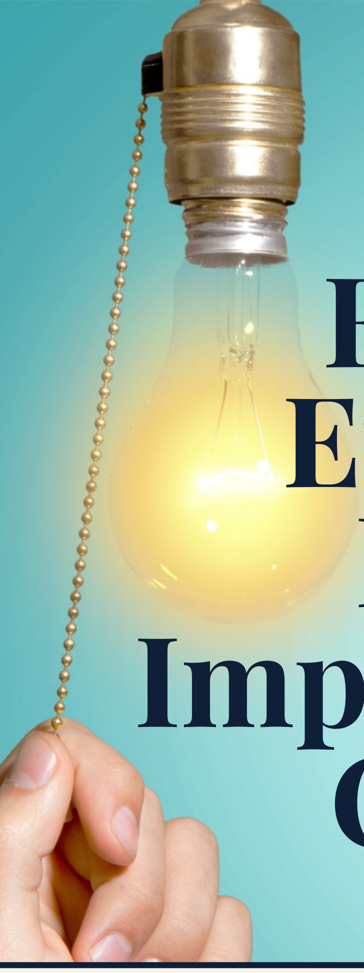
The Inflation Reduction Act created new tax breaks and also extended many green energy/energy-efficient tax breaks already on the books. The legislation also created new requirements to obtain these tax breaks, including requirements to pay prevailing wages, offer apprenticeship programs, use domestic content, and operate in low-income or distressed communities.

Clean Vehicle Credits

Getting a tax credit for an electric vehicle got a little harder. The new credit imposes vehicle price limits, purchasers income limits, and vehicle domestic sourcing tests to qualify for the credit.

New Clean Vehicle Credit: New qualified plug-in electric vehicles placed in service after 2022 are eligible for a maximum credit of $7,500. The clean vehicle credit is available for vehicles with an MSRP less than $80,000 for vans, sports utility vehicles (SUVs), and pickups, and $55,000 for any other vehicle.

Previously Owned Clean Vehicle Credit: Qualified previously owned clean vehicles with a sales price of $25,000 or less and placed in service after 2022 are eligible for a credit equal to the lesser of $4,000 or 30% of the vehicle's sales price. There are purchaser income limits on this credit, as well.



Energy Efficient Home Improvement Credit

Previous $500 lifetime credit has been replaced by a $1,200 annual credit and it has been extended through 2032, effective December 31, 2022.

If you have made qualifying improvements in 2022 and have not already used up your $500 lifetime credit, the act has also extended the old rules through 2022. Taxpayers may, therefore, now potentially qualify for the old credit for 2022- talk to your CPA to see if you qualify.

Residential Clean Energy Credit

Credit has been extended through 2034.

Credit no longer applies to biomass furnaces and water heaters, now covered under the Energy Efficient Home Improvement Credit. Starting in 2023, however, the new credit will apply to battery storage technology with a capacity of at least three kilowatt hours.

Increased the credit amount, with a phaseout of the applicable percentage: 30 percent for 2023-2032; 26 percent for 2033; and 22 percent for 2034.

The Alternative Fuel Refueling Property Credit

- Credit is retroactively extended to all of 2022 and through 2032.
- Starting in 2023, the credit will be limited to property located in a rural or low-income census tract.

Energy Efficient Commercial Building Tax Deduction

- The previous deduction for energy efficient commercial buildings remains in effect for 2022.
- The new requirements for the deduction do not go into effect until 2023, but neither do the much higher deduction limits. Builders will have to decide if it is better to push ahead and go for the lower deduction limits free of restrictions or go for the higher deduction limits with the restrictions.

Credit for Energy-Efficient Homes

The previous credit for energy efficient homes was also extended through 2022.

Builders will once again have to compare the credit available without the new restrictions for projects placed in service in 2022 to the higher potential credits in 2023 and beyond if the new restrictions can be met.

Extended Energy Credits

The Biodiesel, Renewable Diesel, and Alternative Fuel Credits were extended retroactively to fuel sold or used after Dec. 31, 2021.

The Second Generation Biofuel Producer Credit was also retroactively extended to fuel sold or used after Dec. 31, 2021.

The Production Tax Credit was extended to apply to facilities placed in service after Dec. 31, 2021. The phase-down for wind projects will not apply if construction began before the end of 2021 and the project is placed in service in 2022.

Solar projects are permitted to elect either the Production Tax Credit or the Investment Tax Credit. However, some of the new restrictive provisions for domestic content and location in energy communities do not apply until 2023, creating a window to claim the credit in 2022 without some of the restrictions.

Prescription Drug Pricing

Expands Medicare benefits by capping out-of-pocket drug costs at $2,000 and allowing Medicare to negotiate prices for 100 drugs that it selects.

Sets provisions that save the average Affordable Care Act enrollee $800 a year in the marketplace.

Extension of the Pass Through Deduction

- An extension of the pass-through deduction from 2025 until 2027. The pass-through deduction was originally part of 2017's Tax Cuts and Jobs Act. It allows many "pass-through" entities, such as partnerships and S Corporations, a 20 percent deduction on business income.

Research and Development Tax Credit

- An extension and increase of the existing R&D tax credit from $250,000 to $500,000.
- Formerly, the R&D credit could be applied against income or payroll taxes, but if it was the latter, a limit of $250,000 existed. It is now $500,000.