

Inflation Reduction Act of 2022 Signed Into Law

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On August 16, 2022, the Inflation Reduction Act of 2022 was signed into law. This Act is a slimmed down version of the Build Back Better Act (BBBA) and was passed through the House and Senate using the Budget Reconciliation process which requires a simple party majority.

The key revenue and spending provisions in the Act include:

- **Large-Corporation Tax Increases:** 15% Corporate Alternative Minimum Tax on corporations with average annual financial statement income > \$1 billion and a 1% excise tax on the stock repurchases by public companies (effective 2022)
- **Passthrough Business Losses:** extends existing limitations on excess business losses for partnerships and subchapter S corporations through 2028
- **Enhanced IRS Funding:** projected to improve tax collections through enforcement
- **Medicare Prescription Drug Reform:** allows Medicare to negotiate certain prescription drug pricing and establishes a \$2,000 out-of-pocket cap on Medicare Part D participant Rx costs (effective 2025)
- **Affordable Care Act Subsidies:** extends existing premium subsidies through 2025
- **Renewable Energy and Climate Investments:** extends existing and creates new incentives and credits focused on green energy production, conservation and reducing carbon emissions

Notably absent from the Act are several proposals from the 2021 BBBA focused on income inequality and tax reform, including COVID-era expansions of the child tax and earned income tax credits, the partial or full restoration of the state and local tax (SALT) deduction, the expansion of the 3.8% Net Investment Income Tax ('NIIT') to active business income, and the high earner 5-8% income surcharge. Last, the highly publicized 'carried interest' tax reforms once again failed to make it into the final bill.

While opinions vary on whether the legislation can live up to its name and move the needle on reducing inflation, the bill is being heralded by some, as the single largest climate-focused investment in history, and a significant down payment on environmental preservation and fighting climate change.

Implications and Next Steps

From an investment perspective, there may likely be financial challenges for select companies and industries hit hardest by the Corporate Minimum Tax, but also opportunities presented within the over 500+ pages of clean energy and climate investments and tax incentives. Our Investment Research team is studying the potential implications and will provide its thoughts and commentary in the coming weeks.

While the Act does not include the potentially costly tax increases for high-net-worth individuals suggested in recent legislative drafts, these provisions may be incorporated into future bills. Pathstone will continue to monitor and report on any new legislation as it evolves. In the meantime, please contact your Pathstone advisory team should you have questions or wish to discuss.

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