



H&S Reviews the Inflation Reduction Act...

What is it, you ask?

The Inflation Reduction Act (the Act) is a wide-reaching measure to address issues ranging from clean energy to prescription drugs. The Act may not (yet!) be the topic of dinner table conversations in your home; however, we geek out over things like this at H&S and we've been talking about this for some time already.

So, what's in the Inflation Reduction Act that makes it worth talking about?

Spoiler alert: Not a whole lot related to inflation.

There are Prescription Drug Pricing Reforms, Energy Security & Climate Change Tax Credits, additional IRS Funding, and More! Let's break some of this down:

Prescription Drug Pricing Reform

The most tangible inflation-related measure in the Act ensures the cost of prescription drugs is affordable for those on Medicare. For the first time ever, the federal government will be able to negotiate the price that Medicare pays for certain prescription drugs and will cap the amount some individuals and families will pay out of pocket on related expenses. Highlights include:

- A \$35/month cap on copays on insulin products for those on Medicare
- A \$2,000/year cap on copays and coinsurance for drugs through Medicare Part D
- A \$7,050/year cap on total out-of-pocket drug costs for those on Medicare

Energy Security & Climate Change Tax Credits

Tax credits are the meat and potatoes of the Act and they are the heart and soul of this letter! While we cover a number of the Act's provisions, there is too much here to capture in just a couple fun pages. Check out the tax credit cheat sheet on the following page and don't hesitate to contact your H&S CPA with questions 😊

Possibly the most relevant measure of the Act is the expansion of the Energy-efficient Home Improvement Credit. Prior to the Act, this credit acted as a rebate on things such as exterior windows, home energy audits, furnaces and more, but it had a **lifetime** limit of just \$500. The Act has expanded the Energy-efficient Home Improvement Credit to max out at \$1,200 **per year**, usable every year, with smaller item-specific limits on how much credit can be claimed. The table on the following page lays out how this works.

And then there are some of the most famous energy tax credits: Those for plug-in electric vehicles! EV tax credits have been around for years now, but the Act takes them to the next level. Prior law capped the number of EV credits that could be claimed to just 200,000 per manufacturer, meaning if you weren't an early adopter you probably missed out. The Act removed this limit, so you may once again be able to get a credit on that Chevy Bolt you've been saving up for!

Even more, beginning in 2024, clean vehicle credits now qualify for direct payments. This means your dealer can apply the credit against the purchase price of your car, rather than having to wait and file your tax return to get your money back. There are certain rules regarding which taxpayers and vehicles qualify for these credits, of which more information can be found on the next page.

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IRS Funding

Another feature of the Act is an additional **\$80 Billion** in IRS funding over the next 10 years. This funding is intended to address a number of systemic issues at the IRS such as the following:

- Funding for 87,000 new IRS employees to replace the estimated 50,000 employees expected to retire during the next 10 years
- More employees will mean smaller wait times with IRS call centers, faster turnarounds when writing to the IRS in response to notices, and shorter delays in receiving taxpayer refunds
- Larger numbers of IRS agents also means higher levels of audit and compliance-related activity, which the Congressional Budget Office expects could increase collections by over \$200 billion
- Increased audit activity is expected to focus on those making more than \$400,000 annually

And More

The Inflation Reduction Act is a considerable piece of legislation and includes provisions addressing corporate minimum tax, a new tax on stock buybacks, additional clean energy tax credits for businesses, subsidies for climate friendly agriculture, and more! We've addressed only the most relevant issues in this letter, but welcome your questions and conversation should you be interested in more information.

Now for that table:

| Tax Credit | Item | Maximum Credit | Rules |
|---|--|----------------|--|
| Energy-efficient Home Improvement Credit | Exterior doors | \$500 | The credit equals 30% of the cost of eligible home improvements, limited to a grand total of \$1,200 per year. The changes go into effect in 2023. |
| | Exterior windows, central air conditioners, electric panels, furnaces, and hot water boilers | \$600 | |
| | Insulation | \$1,200 | |
| | Home energy audits | \$150 | |
| Residential Clean Energy Credit | Certain heat pumps, water heaters, biomass stoves, and boilers | \$2,000 | Same rules as above, except the annual limit is \$2,000. |
| | Solar electric, solar water heating, fuel cell, geothermal, wind, and biomass fuel property | No cap | The credit is up to 30% of the purchase price of qualified property. This is retroactive to purchases in 2022. |
| Clean Vehicle Credit | New Clean Vehicle | \$7,500 | Limitations apply based on model year, purchase price, taxpayer income, and location where the vehicle's battery was sourced and assembled. Most changes apply to years 2023 and beyond. |
| | Used Clean Vehicle | \$4,000 | |

The table above is not comprehensive, but should cover the most common purchases eligible for the new tax credits. If you are wondering if a specific purchase you have in mind qualifies, you can go to energystar.gov and afdc.energy.gov for information on eligible home improvement and clean vehicle purchases, respectively.

As always, please feel free to contact your H&S professional with any questions!

Be well,

Jared Bollaert

Jared Bollaert, Partner
H&S Companies