Inflation Reduction Act (IRA) of 2022 Summary

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On Aug. 16, 2022, President Biden signed into law H.R. 5376 – *Inflation Reduction Act (IRA) of 2022*. In general, this legislation provides incentives for investment in domestic energy production and manufacturing and the reduction of carbon emissions by roughly 40% by 2030. The bill will also finally allow Medicare to negotiate for prescription drug prices and contains the following key tax provisions.

Individual provisions:

Affordable Care Act Subsidies (Section 12001)

A refundable premium tax credit (PTC) is available to individuals and families who are enrolled in insurance on the marketplace and who are not eligible for other qualifying coverage (CHIP, Medicare, etc.) or affordable employer-sponsored plans providing minimum coverage [§36B(a)].

The PTC is generally available to individuals whose household income is between 100% and 400% of the federal poverty line. The *American Rescue Plan* (ARPA) removed the 400% FPL limitation for marketplace purchased health insurance premium assistance for 2021 and 2022 and substituted a provision of limiting healthcare costs to not more than 8.5% of the family household income for marketplace purchased health coverage only. The *IRA of 2022* extends this provision through Dec. 31, 2025.

Clean Energy and Efficiency Incentives for Individuals (Section 13301)

Individual taxpayers were allowed credits for specified nonbusiness energy property expenditures [§25C(a)]. The credit applied to property placed in service before Jan. 1, 2022, in the taxpayer's principal residence and was subject to a lifetime limit.

The IRA of 2022 renamed the credit to energy efficient home improvement credit and extended the credit to include property placed in service before Jan. 1, 2033. In addition, the IRA of 2022 increases the credit amount to 30% (previously 10%) of the sum of the amount paid or incurred by the taxpayer for qualified energy improvements installed during the year and the amount of the amount of the residential energy property expenditures paid or incurred by the taxpayer during that year. Furthermore, the lifetime limit no longer applies. Instead, the annual limit is $1,200 with specific limitations including the cost of installation on the amount of the credit that can be claimed for windows, skylights and other energy improvements ($600 annual total), doors ($250 for one, $500 for more than one), and $2,000 (for installations after December 21, 2022) for specified heat pumps, heat pump water heaters, and biomass stoves and boilers.

In addition to the increased credit amount, roofs were removed as a building envelope component, where air sealing insulation, including air sealing material or system, was added. Improvements to or replacements of a panelboard, sub-panelboard, branch circuits or feeders are now included as qualified energy property as long as requirements are met.

The IRA of 2022 further expands the credit to homes located in the U.S. as long as the taxpayer uses that property as a residence. In other words, if a taxpayer makes energy efficient improvements on a second home, those expenses are eligible for the credit under §25C.

Residential Clean Energy Credit (Section 13302)

Individuals were allowed the residential energy efficient property (REEP) credit for solar electric, solar hot water, fuel cell, small wind energy, geothermal heat pump and biomass fuel property installed in homes in years before 2024 [§§ 25D(a) and 25D(h)]. The credit amount was:

- 26% for property placed in service after Dec. 31, 2019, and before Jan. 1, 2023
- 22% for property placed in service after Dec. 31, 2022, and before Jan. 1. 2024

The IRA of 2022 extended the credit plus increased the credit amount to the following:

- 30% for property placed in service after Dec. 31, 2019, and before Jan. 1, 2033
- 26% for property placed in service after Dec. 31, 2032, and before Jan. 1, 2034
- 22% for property placed in service after Dec. 31, 2033, and before Jan. 1, 2035

These provisions generally apply to expenditures made after Dec. 31, 2021.

Clean Vehicle Credit (Section 13401)

A taxpayer could claim a credit for each new qualified plug drive motor vehicle (NQPEDMV) placed in service during the tax year [§30D]. The amount of the credit was $7,500. The credit phases out in the second quarter after a manufacturer sells 200,000 vehicles. Tesla and GM were the only manufacturers where the phase-out applies.

The IRA of 2022 renamed the credit to the clean vehicle credit and eliminated the number of vehicles (manufacture sales) for vehicles sold after Dec. 31, 2022. The credit for new qualified vehicles can be as high as $7,500. A qualified vehicle must have final assembly in North America (this includes specifications on the manufacturing and assembly of the battery) meet critical mineral requirements and have a minimum battery capacity of seven kilowatt-hours. In addition, the manufacturer's suggested retail price (MSRP) for vans, SUVs, and trucks cannot exceed $80,000 and for any other vehicle $55,000. A list of eligible vehicles is available on the U.S. Department of Energy website.

Unlike the prior credit, the clean vehicle credit is limited by the taxpayer's MAGI. The threshold amounts are $300,000 (MFJ or QW), $225,000 (HOH) and $150,000 for all others.

Beginning in 2024, a taxpayer can "transfer" the credit to the dealer. The dealer then in turn reduces the purchase price of the vehicle. Essentially, this is the equivalent of a rebate.

Credit for Previously Owned Clean Vehicles (Section 13402)

The IRA of 2022 adds a credit for taxpayers who purchase a previously owned clean vehicle after Dec. 31, 2022, and before Jan. 1, 2033 (§25E). The credit is the lesser of $4,000 or 30% of the vehicle's sales price. The sales price is limited to $25,000 and the transaction must be through a dealer. An MAGI limitation also applies for a previously owned clean vehicle. The threshold amounts are $150,000 (MFJ or QW), $112,500 (HOH) and $75,000 for all others.

A previously owned vehicle must meet the following:

- A motor vehicle with a model year that is at least two years earlier than the calendar year when the taxpayer acquires it
- The original use started with a person other than the taxpayer
- Acquired in qualified sale
- Meets the requirements applicable to vehicles eligible for the clean vehicle credit for new vehicles

It should be noted a dependent of another taxpayer is not eligible for this credit.

Credit for Commercially Owned Vehicles (Section 13403)

IRA of 2022 adds the qualified commercial clean vehicles credit (§45W). The credit per vehicle is the lesser of:

- 15% of the vehicle's basis (30% for vehicles not powered by a gas or diesel engine), or
- The incremental cost of the vehicle over the cost of a comparable vehicle powered by gas or diesel only

The IRS will provide guidance regarding the determination of the incremental cost.

The maximum credit for vehicles with a gross rating of < 14,000 pounds is $7,500 and $40,000 for heavier vehicles.

State and Local Tax Limitation (SALT) extended through 2026 (Sections 13903 & 13904)

The *Tax Cuts and Jobs Act (TCJA) of 2017* added the SALT limitation for taxpayers who deduct state and local taxpayers on their personal returns. The limitation is $10,000 ($5,000 for MFS). This provision was set to expire at the end of 2025. The IRA of 2022 added another year to this provision, thus extending the limitation through 2026.

The effective date is taxable years beginning after Dec. 31, 2022.

Business provisions:

Excess Business Losses (EBLs) of noncorporate taxpayers extended through 2028 (Section 13903)

The TCJA of 2017 added a limitation on business losses for noncorporate taxpayers under §461 for tax years through 2025. EBLs are losses in excess of a limitation based on the taxpayer's filing status. The ARPA further extended these provisions through 2026. The IRA of 2022 further extended the EBL limitation through 2028.

The effective date is taxable years beginning after Dec. 31, 2026.

Other tax provisions:

- 15% corporate alternative minimum tax
- 1% excise tax on corporate stock repurchases
- Updates the energy efficiency requirements for claiming the deduction for installing certain energy-saving systems
- Extends the tax credit available to contractors for building and selling qualifying energy-efficient new homes through 2032

For more information regarding these provisions and others, review the bill.