

# Summary of the Inflation Reduction Act of 2022

Senate Democrats have announced a deal on a reconciliation bill, the Inflation Reduction Act of 2022, that would raise \$450 billion to pay for deficit reduction, clean energy, and climate investments.

The bill's two main tax components are:

1. An investment of \$80 billion over the next 10 years for IRS tax enforcement and compliance. The Congressional Budget Office estimates the IRS will collect \$203 billion from this investment.
2. The imposition of a 15% domestic tax, referred to as a corporate alternative minimum tax, on the approximately 200 largest corporations that currently pay less than that corporate tax rate. This will raise \$313 billion. The tax would be on adjusted financial statement income for corporations with profits in excess of \$1 billion. Corporations would generally be eligible to claim net operating losses and tax credits against the AMT, and would be eligible to claim a tax credit against the regular corporate tax for AMT paid in prior years, to the extent the regular tax liability in any year exceeds 15% of the corporation's adjusted financial statement income. This provision would be effective for tax years beginning after December 31, 2022.

**Environmental Credits.** There are numerous provisions to address climate change, including tax credits for consumers and businesses.

For businesses, this includes:

- an extension and modification of various credits for electricity produced from certain renewable resources;
- an increase in energy credit for solar and wind facilities placed in service in connection with low-income communities; an extension and modification of credit for carbon oxide sequestration;
- a zero-emission nuclear power production credit; an extension of incentives for biodiesel, renewable diesel, and alternative fuels;
- an extension of second generation biofuel incentives;
- a sustainable aviation fuel credit; and,
- a credit for production of clean hydrogen.

For individuals, this includes:

- an extension, increase, and modification of the nonbusiness energy property credit;
- an extension of the residential clean energy credit;
- an energy efficient commercial buildings deduction; and,
- an extension, increase, and modification of the new energy efficient home credit.

Other environment-related credits include:

- a clean vehicle credit;
- a credit for previously-owned clean vehicles;
- a credit for qualified commercial clean vehicles;
- an alternative fuel refueling property credit;
- an extension of the advanced energy project credit;
- an advanced manufacturing production credit;
- a clean electricity production credit;
- a clean electricity investment credit;
- special rules for the cost recovery for qualified facilities, qualified property, and energy storage technology; and,
- a clean fuel production credit.

**Other Provisions.** Other provisions in the bill include:

- Prescription drug pricing reform
- Funds for the IRS to prepare and deliver a report to Congress on the cost of developing and running a free, direct efile tax return system
- Closing the carried interest loophole
- Affordable Care Act (ACA, or Obamacare) extension

According to the bill's summary, there are no new taxes on families making \$400,000 or less and no new taxes on small businesses.

**Next Steps.** The bill will be reviewed by the Senate parliamentarian for conformity with the Byrd rule, which restricts what type of provisions can be included in a reconciliation bill. Under reconciliation, the bill needs to meet a 51-vote threshold in the Senate and pass in the House. The current reconciliation process expires on September 30.

Checkpoint will provide ongoing coverage as this bill progresses through Congress.