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Gavel to Gavel: Tangible tax benefits of the Inflation Reduction Act

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The Inflation Reduction Act was recently signed into law by President Biden. Proponents contend the legislation was designed to combat some of the significant issues that our country is currently facing – the most obvious being inflation.

The act will raise tax revenue mostly by increasing taxes on corporations and allocating \$80 billion to the IRS to increase tax enforcement and modernize operations. Authors of the legislation contend it is not designed to increase taxes on small businesses or families that make less than \$400,000 per year.

Regardless of whether the act actually ends up impacting inflation, there are several new, expanded or extended tax credits that could be of tangible benefit to many starting next year, including:

- An existing credit of up to \$7,500 for new clean vehicles will be extended through 2032, and the legislation adds a new credit of up to \$4,000 for used clean vehicles that will apply to cars purchased next year. There are several limits on these credits, including income limits on who can claim the credits and limits based on the manufacturer suggested retail price (MSRP) of the cars that will qualify for the credits.
- The act extends the enhanced tax credits that lower monthly costs for individuals who purchase insurance from a private marketplace.
- The legislation will require Medicare to negotiate the prices of certain prescription drugs starting in 2026. It also caps out-of-pocket drug costs for people enrolled in Medicare and penalizes drug companies if they increase Medicare drug prices faster than the rate of inflation.
- The premium tax credit (a tax credit you can use to lower your monthly insurance payment) for taxpayers whose household income exceeds 400% of the poverty line will be extended through 2025.
- The Residential Energy Efficient Property Credit is a 10-year extension of the homeowner credit for solar projects. That tax credit could also benefit people who purchase energy-efficient water heaters, heat pumps, and HVAC systems.
- The energy-efficient home improvement credit (for windows, doors, water heaters, heaters, and other energy efficient equipment) will be extended through 2032 with a credit equal to 30% of the amount paid for energy-efficient improvements. Additionally, a \$500 lifetime limit will be replaced by a \$1,200 annual limit on the credit amount.

Specific IRS guidance and details are still under development, but the wide variety of credit extensions and enhancements merit consideration for eligible taxpayers beginning in 2023.

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