ADVANCED PLANNING

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Insights & Ideas

The Inflation Reduction Act of 2022

On August 16th, 2022, President Joe Biden signed the Inflation Reduction Act of 2022 ("Act"), the roughly $740 billion budget reconciliation package that includes some targeted corporate tax increases, a large increase in funding for the Internal Revenue Service, incentives to promote climate change mitigation and clean energy, and provisions to promote health care affordability. The new law has limited direct effect on the sale of life insurance and annuity products for wealth transfer, retirement income and business planning.

The Act

Here are the Act's marquee provisions, or the ones having the most potential to affect corporate and consumer behavior:

15% Corporate Alternative Minimum Tax - Only certain companies with annual profits in excess of $1 billion are affected. The provision counteracts "offshoring" profits and raises overall revenue.

1% Excise Tax on Corporate Stock Buybacks – Applies to U.S. corporations whose stock is traded on an established securities market. The provision raises overall revenue; de minimis and corporate reorganization exceptions apply.

Credits for clean energy and low-consumption technologies – Incentives for electricity producers, larger-scale and residential electricity users, and users of fleet and personal vehicles to develop, provide, or switch to power sources having minimal or net zero carbon emissions and/or purchase certain qualifying vehicles, appliances, and equipment.

Excise Tax on Drug Manufacturers – New tax on producers and importers of certain drugs who fail to negotiate drug pricing agreements with the Department of Health and Human Services acting on behalf of Medicare participants. The tax ranges from 118.71% to 1,900% of the drug's list price.

Extension of Affordable Care Act (ACA) Refundable Premium Tax Credit – Extends the available ACA credit through 2025.

Cap on Out-of-Pocket Medicare Drug Costs - $2,000 annual spending cap on prescription drugs for Medicare beneficiaries, effective in 2025. The new benefit is not tied to income.

Funding for IRS Enforcement – The above-mentioned revenue raisers help fund, in part, enhanced Tax Code enforcement by the Internal Revenue Service.

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Analysis

The Act also includes provisions not described above. Just as importantly, it does *not* include certain proposals under prior debate in the U.S. Senate, including modifications to the so-called carried interest tax affecting hedge fund managers, or a monthly cap on prescription insulin costs for patients on private insurance. (The Act, as passed, includes a monthly cap on insulin costs for Medicare beneficiaries.)

The law will benefit ordinary Americans, and retirees in particular, by reducing uncertainty around ongoing and future healthcare costs.

High-net-worth taxpayers, on the other hand, are largely unaffected by the law. The same uncertain tax questions loom as large for them as from before the Act was signed: the lifetime transfer tax exemption that was doubled by the Tax Cuts and Jobs Act of 2017 is still on track to sunset in 2026, and the highest marginal income tax rate will revert to 39.6% that same year. In addition, we have the upcoming mid-term elections, and we will see if the majority in either the House or Senate will change. We can certainly anticipate more proposed tax legislation, as well as debate on President Biden's budget proposals for the 2023 fiscal year which begins on October 15th.

Now you can educate your financial professionals and help them talk to their clients about this recent development. Prudential's Advanced Planning team is available to discuss the new law's application, and can be reached at 800-800-2738, Option 4 for life insurance support.

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