

AUGUST 2022 NEWSLETTER

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THE REALITIES OF THE INFLATION REDUCTION ACT OF 2022

1. AWARDS:

Pozzuolo Rodden Pozzuolo is pleased to announce that Joseph R. Pozzuolo has been awarded the 2022 Martindale-Hubbel AV Preeminent rating for the Highest Level of Professional Excellence – the highest Peer Review Rating achievable recognizing lawyers for their strong legal ability and high ethical standards. These rating are used to identify, evaluate and select the most appropriate lawyers by attorneys seeking to refer colleagues as well as individuals looking for legal counsel. This designation is trusted worldwide by seekers of legal services and held only by 10 percent of all attorneys.

2. SEMINARS:

Jeffrey S. Pozzuolo, Esquire recently presented a CPE seminar titled “Business Succession Planning and Buy-Sell Agreements” to the Montgomery County Society of Certified Public Accountants.

Speakers are available upon request to Joseph R. Pozzuolo at Joe@Pozzuolo.com

3. BLOGS:

The following are a few of the business, tax, employment, estate planning and business litigation blogs posted on our main website www.pozzuolo.com:

- a. Choosing A Retirement Plan;
- b. Living Wills and Power of Attorney; and,
- c. The Use Of A Will In An Estate Plan.

Please visit our website www.pozzuolo.com for more information on these and other relevant business, tax, estate, business litigation and employment topics.

THE REALITIES OF THE INFLATION REDUCTION ACT OF 2022

President Biden and the Democrats are touting that The Inflation Reduction Act of 2022 (“IRA”) will have the massive cooling effect necessary to reduce inflation and cut carbon emissions. Notwithstanding, it does not look to do much for the average American, at least directly. Its main provisions are creating/extending green incentives including the “clean” vehicle incentives, expanding Medicare benefits, and making large companies pay for it through a minimum tax and a stock repurchase excise tax. The following will explain the realities of the IRA.

Green Incentives

In terms of clean energy incentives the most popular is the \$7,500 tax credit for new qualified “clean” vehicles through 2032, including electric, plug in hybrids and hydrogen fuel cell vehicles. This tax credit only applies for couples with a modified adjusted gross income not exceeding \$300,000 or a single filer with a modified adjusted gross income not exceeding \$150,000. However, the tax credit only applies for SUVs and trucks that cost less than \$80,000 and all other vehicles that cost less than \$55,000. The vehicles also need to be assembled in America, but as of 2024 other key components, including the batteries, will need to be American sourced.

For used “clean” vehicles, the green incentive is a tax credit of the lower of \$4,000 or 30% of the sale price. The income limitations drop to \$150,000 for married couples and \$75,000 for single filers. The sales price cannot be more than \$25,000. Buyers only receive a credit on the first sale of a used “clean” vehicle, and buyers can only get one credit every three years.

Additionally, there is a 30% tax credit for installing a residential clean energy system including solar and wind power systems. Furthermore, there is a litany of other incentives for people adding high efficiency windows, HVAC’s, water heaters, appliances, and such, but many of the tax incentives are income limited.

The governmental claim is that between tax incentives and the energy savings, Americans will be savings thousands. This is the main crux of the “inflation reduction” claims. Nonetheless, as stated, there are income limits, purchase price limits, and many of these energy efficient upgrades are not inexpensive on their own, even with a 30% tax credit. For instance, solar panels themselves may cost over \$15,000 to \$20,000, resulting in a long payback period. The cost of electric vehicles, outside of the Chevy Bolt and EUV, are out of reach for most of the country given that the purchase prices many times exceed those of luxury cars, not even mentioning that the stock/inventory is still vary scant. Yes, a 30% credit and incentives may motivate a few buyers whom are on the fence, but the high price tag of such items may still make them prohibitively expensive for the average American.

Medicare and ACA Credits Reductions

There is a litany of claimed Medicare benefits. These include the ability of Medicare to negotiate prices, limits of insulin, and annual out-of-pocket caps. Additionally, certain premium tax credits provided after COVID were extended through 2025. Again, this is another area where the law is attempting to lower inflation by trying to get control of medical expenses for seniors and lower income families.

Corporate Taxes Provisions

The main source of funding for the IRA is through additional corporate taxes. The first being a 15% minimum tax on corporate book income for companies with profits of \$1 billion or more. Note, this is not based on taxable income but income in financial statements. It is claimed this will only directly affect about 150 of the largest companies, but this should not directly affect closely held businesses. The other main source is a 1% excise tax on stock repurchases for companies listed on a formal exchange. Again, this is not expected to affect small and closely held businesses, but large businesses.

While these do not have a direct effect on small, privately/closely held businesses or the average American, it is believed by many economists that it will have the following indirect effect on the average American: 1) extra costs to big corporations means they will pass those costs onto the average American; 2) the effect on stock prices/dividends; and, 3) indirect effects to smaller businesses.

Adding extra costs to large businesses is not an isolated transaction, as the large businesses are working within a larger system. To a large extent, companies will pass on the additional cost by reducing wages, layoffs, reducing labor conditions, reducing product offerings, cutting corners on products in an already tight market, and/or increasing prices. On the other hand, for what additional costs and expenses it cannot pass on, it will affect the company’s stock price. The problem is the demonized “fat cat” stockholders at the top of the corporate chain are usually pension funds who in turn, hold retirement investments on behalf of the average American. Finally, the added costs may cause added pressure on smaller companies that supply these large businesses. The smaller companies may be forced to take smaller margins or may lose a segment of their business overnight if a large corporation has to cut product lines which become unsustainable due to the additional taxes.

The added costs will not affect the average American in the short run, but in the long run it will harm them financially by causing increased prices, a drop in quality, worse working conditions, and a drop in the average fair market value of individual's retirement investments. The question is, will the incentivized green savings and Medicare savings outweigh the hit the average American will take by creating another tax on the overall national system. I guess we will see, but Democrats believe it will undo the wrongs of big corporations and make the world a better place, while Republicans think it is just another unnecessary money grab/wealth transfer and vilification of large corporations. The truth is usually somewhere in the middle.

Other Tax Related Provisions

In addition to the corporate taxes, the IRA will: i) extend the current pass-through loss limitations through 2028; ii) permits small businesses with less than \$5 million in receipts and less than five years old to take up to a \$250,000 research and development credit towards social security payroll taxes; and, iii) adds \$80 billion of funding to the IRS for enforcement. The pass through limitation likely will not affect too many people and is current law. The research and development credit will likely not amount to much for the average American as it only helps startup companies.

Nevertheless, the \$80 billion in IRS funding may be one of the few provisions that will directly affect small and closely held businesses. It is claimed that IRS will hire 87,000 new auditors. The IRS has been even more aggressive over the last few years. We have seen audits where they try to rake or haul a taxpayer over the coals over minor violations, agents who have been less than truthful, agents who seem to leave investigations open longer than they need be, and lien letters that apparently contradict their own internal transcripts. Many innocent, hardworking taxpayers are subject to the time and cost of fluff audits over minor violations or technicalities, especially in areas where the IRS rules and regulations have become unnecessarily complicated, making it harder and harder for closely held companies without major accounting departments to stay current.

Conclusion

Was this another rushed poorly thought out public relation move by the current administration or will this be the boon that brings the United States into a new green era which finally ropes in the ever increasing energy costs? While the green initiatives and roping in energy prices are laudable goals, especially with the current gas prices and with the colder weather just around the corner, the bill just seems rushed and out of touch with what is going on in the country. People are hurting with gas prices, higher food prices, the cost of housing going up, and interest rates on the rise after ten years of rock bottom rates. Products are coming out late and with cut corners in every area of the market. Adding further costs and taxes just begs for these businesses to continue to raise prices and cut more corners and continues the bleeding.

This IRA just wreaks of poor planning and a rush to grab votes with tax incentives that only apply to taxpayers who cannot afford the astronomically priced electric vehicles with maximum purchase price dollar limits that are less than the price of most electric cars, while the rote blunt tax blindly sticking it to “big corporate” without looking at how it will really affect the average American in the long run. Many economists expect the IRA to have minimal effect on the average American and feel it is another sign of tone deaf politicians hoping the average person will cheer when thrown a bone, even if there is no bone at all.

This newsletter is courtesy of Pozzuolo Rodden Pozzuolo, P.C.

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