

Summary of the Inflation Reduction Act of 2022

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022. The legislation includes a number of major healthcare, energy, and climate change provisions. Key provisions of the bill are detailed below.

Corporate Tax Provisions

The bill makes a number of changes to the corporate tax code. Though it's not a sweeping reform (like the [Tax Cuts and Jobs Act of 2017](#)) its changes will have an impact on mid-to-large-sized corporations.

- **Corporate Alternative Minimum Tax.** Establishes a 15% alternative minimum tax on book income on both (a) U.S.-based corporations with at least \$1 billion in revenue over a three-year average and (b) foreign-headquartered groups with at least \$100 million in revenue over a three-year average.
- **Excise Tax on Stock Buybacks.** Imposes a 1% excise tax on the fair market value of stock repurchased by publicly traded companies (with exceptions).
- **Funding for Internal Revenue Service Enforcement.** Provides \$79 billion in new funding for Internal Revenue Service enforcement over the next 10 years. More on that to come with our recent interview with CNBC.

Energy and Climate Change Provisions

The bill includes roughly \$369 billion in incentives for energy and climate-related programs, including 1) tax rebates and credits to lower energy costs for households; 2) tax credits, research loans, and grants to increase domestic manufacturing capacity for wind turbines, solar panels, batteries, and other essential components of clean energy production and storage; 3) tax credits to reduce carbon emissions; 4) programs to reduce the environmental impact of agriculture; and more.

- **Expansion of Production Tax Credit (PTC) and Restoration of the Investment Tax Credit (ICT).** Expands the Production Tax Credit to include energy storage and restores the Investment Tax Credit (30% tax credit) to 2024.



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- **Extension and Expansion of Carbon Capture Tax Credit.** Extends the carbon capture tax credit to include facilities that start construction before 2033. It also increases the rates for the credit – more specifically, the rates for the credit are now set between \$60/MT and \$85/MT (compared to the current level of \$35/MT-\$50/MT), though there are additional wage and apprenticeship requirements. The bill also lowers the annual threshold of eligible carbon capture facilities to 12,500MTs – 18,750 MTs (down from the current 500,000 MT requirement) depending on the type of capture facility.
- **Hydrogen Production and Investment Tax Credit.** Establishes a tax credit of \$0.60 per kg for hydrogen production that goes up to \$3 per kg if wage and registered apprentice requirements are met for facilities that start construction before 2033.
- **Advanced Manufacturing Production Tax Credit.** Establishes a tax credit for advanced energy projects of up to 75% (dependent on that reduce the emissions of a manufacturing facility by more than 20%.)
- **Electric Vehicles Tax Credit.** Provides a \$7,500 income tax credit for new EVs and \$4,000 for previously owned EVs. The bill also provides a 30% tax credit for the purchase of clean commercial electric vehicles as well as \$1 billion in grants for the purchase of clean heavy-duty vehicles (e.g., buses, etc.). In addition, the bill lifts the cap on the total number of tax credits that automakers can receive and broadens the eligibility for the credit from “plug in” vehicles to include fuel cell vehicles. Eligibility for these tax credits is limited, however, due to what is seen as stringent sourcing requirements. Additional limitations are imposed to individuals on new vehicles based on income (generally under \$300k for married couples) as well as the limit on the cost of the vehicle (\$80k for SUV & pucks and \$55k for other vehicles). For used vehicles, the income limit is \$150k for married individuals and purchase price for the vehicle is limited to \$25k.
- **Advanced Industrial Facilities Program (\$5.812 billion).** Creates a \$5.812 billion program to invest in advanced manufacturing facilities with a target of reducing emissions in energy intensive industries. The program will cover the purchase, installation, or implementation of advanced industrial technology or the retrofitting or upgrading of a current facility.
- **Energy Infrastructure Reinvestment Financing (\$5 billion).** Provides \$5 billion to finance up to \$250 billion in projects for energy infrastructure, including repurposing or replacing energy infrastructure
- **Electric Transmission Loan/Grant Program (\$2.9 billion).** Includes roughly \$2.9 billion in funding for electric transmission development including \$2 billion in direct loans for transmission projects and \$760 million in grants for siting for transmission line projects.

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- **Domestic Manufacturing Conversion Grants (\$2 billion).** Provides \$2 billion in grants for the production of various types of electric vehicles.
- **Modified Energy Efficiency Tax Credits.** Reduces the level of efficiency that a building must demonstrate to 25% (down from 50%) to be eligible for the deduction (50 cents to \$5 per square foot depending on level of efficiency gains and wage/apprenticeship requirements). The bill, however, modifies the life of the credit from a lifetime cap to a three-year cap.
- **Energy Efficient Home Credit.** The bill replaces the existing \$500 life time credit for energy efficient improvements done to your home with an annual credit of up to \$2,000 depending on the type of improvements done to your home.

Healthcare Provisions

The bill represents one of the most significant pieces of healthcare legislation in recent years by allowing the government to negotiate drug prices and restructuring how drugs are covered under Medicare, significantly impacting drug manufacturers, pharmacy benefit managers, and health insurers.

- **Government Drug Price Negotiations.** Allows the Secretary of HHS (Dept. of Health and Human Services) to negotiate maximum fair prices for 50 drugs in Medicare Part D and 50 drugs in Medicare Part B on a phased schedule. Notably, drugs that are less than nine years (for small-molecule drugs) or 13 years (for biological products) from their U.S. Food and Drug Administration (FDA)-approval or licensure date would be held exempt from negotiation. To enforce the negotiation, the bill imposes a monetary penalty of 10 times the difference between the offered price and the maximum fair price (MFP) for all applicable units.
- **Delays Trump-era Rebate Rule.** Delays the implementation of the Trump era so-called “rebate rule” that was implemented in November 2020 until 2032. That rule eliminated the safe harbor for Part D drugs and enforced the discounts at the point of sale.
- **Drug Price Inflation Rebates.** Imposes rebates on drug manufacturers that increase prices faster than inflation to limit annual increases in drug prices for people with Medicare. The rebate is based on the Average Sales Price beginning in 2023 relative to Q3 2021 – the Notably, the inflation rebates only apply to drugs in Medicare Part B without competition and Part D drugs that cost more than \$100 a year.
- **Medicare Part D Reforms.** Makes a number of changes to the structure of Medicare Part D by (a) eliminating the five percent cost-sharing in the catastrophic phase of Part D in 2024, (b) capping out-of-pocket costs at \$2,000 in 2025, and (c) limiting premium growth to 6% each year for the next five years.

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- **Insulin Price Caps in Medicare Part D.** In addition to the above reforms, the bill caps the out-of-pocket costs for insulin at \$35 a month.
- **Increases Biosimilar Add-On Payments.** Increases the Medicare Part B add-on payment for biosimilars to 8% (up from 6%) of the average sales prices.

Inflation Reduction Act Cost/Savings Breakdown

Policy/Provision	Cost(-)/Savings (2022-2031)
Energy and Climate	-\$386 billion
Clean Electricity Tax Credits	-\$161 billion
Air Pollution, Hazardous Materials, Transportation and Infrastructure	-\$40 billion
Individual Clean Energy Incentives	-\$37 billion
Clean Manufacturing Tax Credits	-\$37 billion
Clean Fuel and Vehicle Tax Credits	-\$36 billion
Conservation, Rural Development, Forestry	-\$35 billion
Building Efficiency, Electrification, Transmission, Industrial, DOE Grants and Loans	-\$27 billion
Other Energy and Climate Spending	-\$14 billion
Healthcare	-\$98 billion
Extension of Expanded ACA Subsidies (three years)	-\$64 billion
Part D Re-Design, LIS Subsidies, Vaccine Coverage	-\$34 billion

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Policy/Provision	Cost(-)/Savings (2022-2031)
Total, Spending and Tax Breaks	-\$485 billion
Health Savings	\$322 billion
Repeal Trump-Era Drug Rebate Rule	\$122 billion
Drug Price Inflation Cap	\$101 billion
Negotiation of Certain Drug Prices	\$99 billion
Revenue	\$468 billion
15 Percent Corporate Minimum Tax	\$313 billion
IRS Tax Enforcement Funding*	\$124 billion
Closure of Carried Interest Loophole	\$13 billion
Methane Fee, Superfund Fee, Other Revenue	\$18 billion
Total, Savings and Revenue	\$790 billion
Net Deficit Reduction	\$305 billion
Memo: Deficit reduction with permanent ACA subsidy extension	~\$155 billion

We will continue to monitor this legislation along with the forth coming regulations and keep you up-to-date on the most current developments.