



Inflation Reduction Act of 2022 Contains Tax Changes

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On Tuesday August 16, President Biden signed the Inflation Reduction Act of 2022 into law (the "Act"). The enacted legislation contains several revenue-raising tax provisions detailed below.

- **15% Corporate Minimum Tax** ? Applicable to corporations with annual adjusted financial statement income of greater than \$1 billion over a consecutive three-year period. Effective for tax years beginning January 1, 2023.

- **1% Excise Tax on Stock Buybacks** ? 1% excise tax assessed on the fair market value of any repurchased stock of a domestic corporation traded on an established securities market, subject to certain exceptions. Effective for repurchases beginning January 1, 2023. The listed exceptions include:
 - repurchases as part of a reorganization where no gain or loss is recognized on such repurchase by the shareholder by reason of such reorganization;
 - repurchases, or an amount of stock equal to the value of the stock repurchased, contributed to an employer-sponsored retirement plan, employee stock ownership plan, or similar plan;
 - repurchases where the total value of the stock repurchased during the taxable year does not exceed \$1 million;
 - repurchases by a dealer in securities in the ordinary course of business (as prescribed by Treasury regulations);
 - repurchases by a regulated investment company or a real estate investment trust; or
 - repurchases to the extent that such repurchases are treated as a dividend.

Additional guidance will be required to clarify the foregoing exceptions, as well as whether the excise tax will apply in other situations. The statutory language states that the tax will apply to any transaction determined by the Secretary to be "economically similar" to a repurchase. Under a broad application, the tax could apply in a variety of M&A transactions, including cash paid for fractional shares,

consideration for dissenters? rights, or other redemptions of stock.

- **Extension of excess business loss limitations** ? The Act extends the limitation period on excess business losses an additional two years, from 2026 to 2028. The limitation in its current form was enacted in the 2017 Tax Cuts and Jobs Act. Applicable to noncorporate taxpayers ? including individuals, trusts, and estates ? an excess business loss is the amount by which the total deductions attributable to all of a taxpayer?s trades or businesses exceed their total gross income and gains attributable to those trades or businesses plus a threshold amount adjusted for cost of living. The threshold amounts for 2022 are \$270,000 and \$540,000 for single and joint filers, respectively. Any losses in excess of those thresholds would be disallowed in the current year and carried forward.

Should you have any questions on the tax impacts of the Act, please do not hesitate to reach out to any member of the firm?s Tax Section.

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