

IRS Funding, Pharmaceutical Pricing, and the Affordable Care Act: The Inflation Reduction Act of 2022's Additional Provisions

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The Inflation Reduction Act of 2022 (IRA '22) is 750-plus pages of tax and spending legislation designed to tackle everything from climate change to the runaway costs of prescription medication. It contains tax credits for clean energy, nuclear power production, electric vehicles, and other technologies intended to fuel the transition to a lower carbon economy.

It also seeks to reduce health insurance premiums for 13 million low- and middle-income Americans and imposes a \$2,000 per year cap on out-of-pocket medicine costs under Medicare Part D. And it establishes a new 15 percent minimum tax on the “book income” of large corporations.



“I have to admit, the approach is making me a little nervous.”

Oh, and if you believe the stated intent, it provides about \$80 billion in new funding to the IRS over the next 10 years that is *not* exclusively for increased tax enforcement. More on this below.

We covered many of the provisions of the new legislation, which the President signed into law on Aug. 16, 2022, on the SWC Blog:

- [The Clean Vehicle Tax Credit](#)

- [Energy Efficiency Credits and Rebates for Residents and Owners of Residential Property](#)
- [Tax Implications for Businesses and Corporations](#)

Here, in this SWC singlette, we cover provisions in the Inflation Reduction Act of 2022 that apply to IRS funding, drug pricing, and Affordable Care Act insurance premiums.

Increased IRS Funding

The Internal Revenue Service (IRS) has been underfunded for years. You may have experienced the ramifications of this underfunding if you ever tried to contact the IRS with a question or concern. But the lack of funding has also impaired the IRS's ability to conduct audits and collect unpaid taxes.

The Inflation Reduction Act of 2022 provides an additional \$80 billion to the IRS over 10 years to improve customer services and expand its enforcement and compliance efforts. The Congressional Budget Office estimates that these investments will raise an additional \$124 billion from increased collections over a 10-year period.

Perhaps the most controversial aspect of this increased funding is what the IRS plans to do with it – hire and train up to 87,000 new IRS agents. While U.S. Secretary of the Treasury Janet Yellen has indicated that the additional funds will not be used to increase audits of people earning less than \$400,000, it would be foolish to believe that such an increase in enforcement efforts would not be used to target regular, everyday taxpayers.

Warning: *As soon as the IRS uses the increased funding to become fully staffed, we are confident that it will expand its enforcement efforts to small businesses and households making less than \$400,000 per year.*

Your best defense is compliance with the Internal Revenue Code (IRC). By “compliance,” we don't mean rolling over and letting the IRS pressure you into paying more than your fair share of taxes. We mean taking advantage of every legal tax deduction, tax credit, and other break for which you qualify; filing your taxes on time; and maintaining excellent records throughout the year for each and every expense or deduction you plan to claim.

We advise that you work closely with a [certified public accountant](#) (CPA) to ensure compliance with the IRC while reducing your legal tax liability to the bare minimum. So long as you comply with the tax code, you have no reason to fear the IRS.

Tax Credits for Health Insurance Premiums

The Inflation Reduction Act extends for an additional three (3) years the increased Premium Tax Credits that were enacted by the American Rescue Plan Act (ARPA). These tax credits are available to individuals who purchased their health insurance on state health exchanges.

The ARPA decreased the percentage of household income most taxpayers must contribute toward their health insurance and expanded eligibility for the credit to taxpayers with a household income over the 400 percent federal poverty level.

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Cost Controls for Medications and Vaccines

The Inflation Reduction Act also contains several provisions to help reduce the cost of prescription medications and vaccines, including:

- Capping out-of-pocket costs for prescription medications for Medicare recipients at \$2,000 (adjusted for inflation)
- Limiting the amount of annual increase for Part D premiums to 6 percent
- Making many vaccines free

Keep in mind that nearly every change to the tax code presents challenges and opportunities. It's no different with the Inflation Reduction Act of 2022.

For example, if you're in the market for a new car or a new HVAC system, provisions in the Act may save you thousands of dollars. Tax incentives to stimulate the transition to the green economy will also create new business opportunities.

On the other hand, the government's need to collect more tax revenue to cover the cost of these incentives may increase your tax burden, both in terms of the taxes you pay and the effort you put into record-keeping and tax preparation.

We're here to help on both fronts. We help our clients identify every tax-saving opportunity for which they qualify while ensuring that they comply with the ever-increasing complexity of the U.S. tax code.

The best time to put any tax-planning and wealth-building approach into action is right now. [Contact us](#) to schedule your tax-planning and implementation session.

Disclaimer: *The information in this singlette about additional provisions included in the Inflation Reduction Act of 2022 is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this singlette should be construed as financial advice from the staff at SWC (Steas, Walker & Company, LLP), nor is this the information contained in this singlette intended to be a substitute for financial counsel on any subject matter, nor is it intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this singlette should act or refrain from acting on the basis of any information included in, or accessible through this singlette without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



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