

August 1, 2022 – Wealth Planning Commentary

The Inflation Reduction Act and proposed tax changes

In an interesting turn of events Joe Manchin announced that he will support a \$700 billion package addressing climate change, prescription drug reform, and tax changes. Manchin dubbed the bill the Inflation Reduction Act and it has some provisions from the defunct Build Back Better (BBB) Act.

Proposed tax changes:

- **15% Minimum corporate tax rate** - Corporations with over \$1 billion in profits are to pay a minimum tax of 15%.
- **Carried interest taxation** - Private equity and hedge fund managers may be disappointed to hear that the act includes a provision reclassifying carried interest taxation from the favorable capital gains to the higher ordinary income tax rate. Though some fund managers do support the tax change.
- **Increased funding for the IRS** – Currently there is \$80 billion slated to go to the IRS over the next decade to ramp up enforcement. Not a tax change per se, but it may impact taxpayers in terms of increasing the likelihood of scrutiny.

What's **not** in the Act:

- **State and Local Tax (SALT) deduction** – A SALT cap elimination or increase is not in the proposal. Sorry, New York, California, and other high income tax states.
- **Surtax on 'Millionaires'** – A proposed surtax of 5% tax on income above \$10 million and an 8% tax on incomes above \$25 million is not part of the Act.
- **Tax on stock buybacks** – The BBB Act proposed a 1% excise tax on stock buybacks by publicly traded corporations.
- Tax changes that impact households making less than \$400,000 a year or small businesses.

The act will need to pass the Senate via a reconciliation bill which will likely require all 48 democrats and 2 independent senators to vote 'yes' as well as a tie breaking vote from the Vice President.

Reminder to obtain the proper documentation for donations to charity

A recent WSJ article cited a case where a taxpayer donated Native American jewelry to a museum and was ineligible for a substantial deduction. The confirmation letter for the donation that was sent to the donor, formally known as a Contemporaneous Written Acknowledgement (CWA), was missing key information.

The letter failed to assert whether the donor received any goods or services in return for the donations. The best practice for a CWA is to include an explicit statement such as: "No goods or services were provided to you in return for your contribution." Otherwise, the IRS may view the donation as a quid pro quo contribution to a charity and prohibit or reduce the deduction. Other requirements for CWAs include: the date of the donation, the amount of cash donated, description of donated goods and the estimated fair market value. CWAs should be obtained from the charity prior to the tax filing date if claiming the deductions. The taxpayer bears the burden of proof for all claims.

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