

MEMO# 34255

August 17, 2022

Inflation Reduction Act of 2022 Enacted

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TO: ICI Members

Tax Committee SUBJECTS: Tax RE: Inflation Reduction Act of 2022 Enacted

Congress recently passed and President Joe Biden signed into law on August 16 the [Inflation Reduction Act of 2022](#) (the Act). The Act contains numerous provisions addressing healthcare costs and clean energy. It also includes tax provisions intended to raise revenue and reduce the deficit. Specifically, the Act adds to the Internal Revenue Code a fifteen percent minimum tax on certain corporations and a one percent excise tax on corporate stock buybacks. ICI engagement with House Ways and Means and Senate Finance Committee staff secured in both provisions an exception for regulated investment companies (RICs).

Corporate Minimum Tax

Section 10101 of the Act adds to section 55(b) of the Internal Revenue Code a new minimum tax on "applicable corporations." The minimum corporate tax generally is the excess of (i) fifteen percent of the adjusted financial statement income for the taxable year (as determined under new section 56A), over (ii) the corporate AMT foreign tax credit for the taxable year. An applicable corporation for this purpose specifically excludes RICs, real estate investment trusts (REITs) and S corporations.

Excise Tax on Stock Buybacks

Section 10201 of the Act adds to the Internal Revenue Code new section 4501, Repurchase of Corporate Stock. This provision imposes on each "covered corporation" a tax equal to one percent of the fair market value of any stock of the corporation that is repurchased by the corporation during the taxable year, if the total value of the stock repurchased exceeds \$1,000,000. A "covered corporation" generally includes any corporation the stock of which is traded on an established securities market (within the meaning of section 7704(b)(1)). New section 4501(e)(5) provides an exception to the excise tax for repurchases by a RIC (as defined in section 851) or a REIT.

We note the exception may not apply to certain funds that are registered under the Investment Company Act of 1940 but that are not RICs for tax purposes (e.g., closed-end funds that invest in master limited partnerships). The Act does provide authority to the Treasury Department and the Internal Revenue Service (IRS) to prescribe regulations or

other guidance as necessary or appropriate to carry out the purposes of this section, including to address special classes of stock and preferred stock.

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