A Nonprofit Perspective on the **Inflation Reduction Act**

On August 16, President Biden signed the **Inflation Reduction Act (P.L. 117-169)**, a $739 billion package of climate, health, and tax provisions. This summary provides a partial listing of key measures of interest to charitable nonprofits.

**Climate**: The new law extends to 2025 various energy tax incentives supporting the environment and clean energy. Extended and new tax breaks and other provisions are designed to incentivize clean energy, such as wind, solar, carbon capture, clean hydrogen, advanced nuclear and energy storage. The law also provides tax credits to lower-to-middle-income buyers of electric vehicles. Notably, the Act provides tax benefits to tax-exempt organizations by enabling some nonprofits and governments to transfer the tax break to contractors and reduce the cost for installing energy efficient systems. The law also authorizes significant environmental spending, including $41 billion for the Environmental Protection Agency, extra funding for conservation programs, such as $5 billion for forest management, and money for drought responses.

**Health Care**: The Inflation Reduction Act extends the Affordable Care Act (ACA) premium tax credits for three additional years (through 2025) with increased credit for participants between 100% and 400% of the federal poverty line and expanded eligibility to those participants above 400% of the line. The law also empowers the Department of Health and Human Services to negotiate drug prices directly with drugmakers, an approach that could reduce federal Medicare spending by $288 billion over 10 years. The statute also caps out-of-pocket costs at $2,000/year for prescription drugs under Medicare Part D.

**Enhanced IRS Funding**: The measure provides $80 billion to the IRS for staffing and tech upgrades. More than half of the new spending is to be dedicated to enforcement, with the remainder to information technology, taxpayer services, and replacing retiring staff. Charitable nonprofits will be watching carefully to see if the increased resources will mean greater attention by the IRS to compliance within the tax-exempt sector and whether the IRS will enforce laws, like the longstanding Johnson Amendment, that protect charitable organizations from scam artists and partisan operatives.

**Tax Increases**: The Inflation Reduction Act imposes a 15% corporate alternative minimum tax, or book tax, on adjusted financial statement income for corporations with profits more than $1 billion. It also levies a new 1% stock buyback excise tax that will take effect starting next year.

**Community Outreach and Support**: Numerous provisions in the Act extend assistance and outreach to underserved and disadvantaged communities. Underserved farmers, ranchers, and foresters will receive $2.85 billion in assistance and support. State, local, and Tribal governments will be offered grants and incentives to reduce air pollution, with an emphasis on reaching disadvantaged populations, environmental justice, and other communities. There will also be similar targeted spending in areas of rural energy development and drought response.

**Deficit Reduction**: The law is expected to provide between $275 billion and $300 billion in deficit reduction resulting from increased tax revenues and drug cost savings.

**What’s Not In**

**Child Care**: The final law dropped funding for child care and early childhood education workforce that had been included in the House-passed version of the Build Back Better Act.

**SALT Cap Relief**: Lawmakers in so-called “high-tax” states had for 18 months demanded repeal of the $10,000 cap on the deductibility of state and local taxes (SALT) originally enacted in the 2017 tax law.