

AHWATUKEE FOOTHILLS NEWS

What the Inflation Reduction Act Means for You



September 7, 2022 by Dr. Harold Wong

The Inflation Reduction Act (IRA) was recently passed and signed by President Joe Biden on 8/16/2022. According to Wikipedia, these are the main parts. The first is allowing Medicare to negotiate prices with drugmakers and limit out-of-pocket expenses to seniors on Medicare to \$2,000 per year. The second is a 15% corporate minimum tax on companies with at least \$1 billion or more in annual profits. The third is the hiring of up to 87,000 new IRS employees at a cost of \$80 billion. The fourth part is providing \$369 billion to fund energy and climate projects with the goal of reducing carbon emissions by 40% in 2030. This article will focus on the fourth part.

The Energy Policy Act of 2005 introduced the 30% solar tax credit for residential or business solar installations. In 2020, 2021, and 2022, this dropped to a 26% solar tax credit. With the recently passed IRA, the tax credit goes back to 30% from 2022 through 2032, before dropping to 26% in 2033 and 22% in 2034. The credit will expire (be 0) after 2034. For any solar projects done in 2022, even if started before the IRA was signed into law on 8/16/2022, the solar tax credit is 30%.

This solar tax credit can have 10% “adders” that can bring the total solar tax credit to at least 50%. The eligibility depends on: whether the solar project pays “prevailing wages”; whether there is a certain minimum amount of domestically produced iron and steel; whether the project is located in a Native American land; whether the project was built on a

site that was formerly a closed coal plant; whether the project is in an “economically disadvantaged” area ... The IRS will need 6-12 months to spell out the rules for these “adders” and undoubtedly there will be many test court cases. However, one can clearly count on the 30% solar tax credit for residential and business solar projects.

Example: a Mesa company produces solar-powered refrigeration units (known as reefers) that replace the diesel-powered reefers that attach to refrigerated food trailers: These units cost \$70,000 and are leased for 10 years to large grocery chains and food distribution companies at a 7% annual return. The investor who buys one gets a 30% solar tax credit of \$21,000 and has a depreciable basis of \$59,500. Depending on whether one is a “passive” or “material participation” investor, one can deduct the \$59,500 immediately in the year of purchase or take accelerated depreciation over 5 years. The tax benefits are huge and the most powerful way of reducing federal income tax in today’s tax code.

Investor Example: an individual buys 7 solar reefers and eliminates all the federal tax on \$280,000 of 2022 taxable income and recovers most of the \$250,000 tax owed on \$850,000 of 2021 taxable income. Note that the Energy Policy Act of 2005 allows one to take excess solar tax benefits generated in 2022 back 1 year and forward 20 years. The IRA seems to increase the carryback to 3 years and the carryforward to 22 years. The investor will receive a 7% annual return of \$34,300

from large food companies for 10 years and will sell the equipment for \$490,000 (to recoup the original purchase price) at the end of the 10-year lease. The typical client who buys a \$70,000 solar reefer saves \$35,000 in total federal and state income tax.

Free Live Seminar and Lunch: Saturday 9/24/2022 at Hyatt Place, 3535 W. Chandler Blvd. Chandler, AZ 85226, with seminar starting at 10 am and Free Catered Lunch at 12:15 pm. Topic is “Beat Inflation by Saving Lots of Tax and Increasing Cash Flow!”

To RSVP for the seminar or schedule a free consultation, please contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com.

Free Information on Retirement Planning, Solar Business Investments, and Tax Savings can be found at www.drharoldwong.com or www.solarbusinessinvestments.com.

To schedule your Free Consultation Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.

Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.