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The Inflation Reduction Act and You

The recently enacted Inflation Reduction Act will most directly affect individuals when it comes to health care and clean energy tax credits. This law began life as the Build Back Better Act, originally introduced last year, and is perhaps twenty percent of that original proposal.

Health Care. Medicare's ability to negotiate drug prices has gotten most of the spotlight, but that is the least of it. Beginning next year, Medicare can negotiate prices for ten high-cost prescription drugs. Those negotiated prices won't go into effect until 2026 for drugs covered by Medicare Part D (traditional drugs) and until 2028 for those covered by Medicare part B (usually office-based infusions).

In subsequent years, more drugs will be added to the negotiations, topping out at 60 drugs in 2029. The specific drugs have not yet been determined. Next year, Medicare will rank drugs based on total expenditures and negotiate on the top ten.

Other drug price reduction highlights will roll in annually:

- 2023: Drugmakers will have to pay rebates if drug prices rise faster than inflation. Monthly insulin costs will be capped at \$35.
- 2024: Medicare's five percent co-insurance for catastrophic drugs will be eliminated.
- 2025: Out-of-pocket prescription drugs prices will be capped at \$2,000 for seniors.

Those not eligible for Medicare will see their ACA health insurance subsidies extended through 2025. Consumers will pay not more than 8.5 percent of income on ACA health insurance premiums.

Energy Credits. The current \$7,500 tax credit for buying an electric vehicle (EV) will be significantly overhauled beginning next year. Both the current and future versions of the credit have restrictions making many vehicle purchasers ineligible to use it. Consumers should understand whether a credit will apply before finalizing the purchase of an EV.

Under the new version of the credit, much of the manufacturing must occur in the U.S., and critical components must be sourced in the U.S. or in countries with whom the U.S. has a fair trade agreement. There are price caps on eligible vehicles (\$55,000 for most cars; \$80,000 for pickup trucks, vans, and SUVs). There are also income caps on who may take the credit. It is limited to single taxpayers with an adjusted gross income of \$150,000 or less and married taxpayers filing jointly with an AGI of \$300,000 or less.

In the short run, very few EVs may effectively be eligible for the new version of the credit. However, the credit runs through 2032. Over time, a broader swath of the U.S. population may both be eligible to use it and find vehicles to buy.

Further, there will now be a tax credit of up to \$4,000 for buying a used EV. That credit is limited to thirty percent of the price tag and can only be used if the purchase price is \$25,000 or less. Again, there are also income limits on taking the credit—\$75,000 for single taxpayers and \$150,000 for joint filers.

The new law also extends and expands the homeowner's tax credit for clean energy. The thirty percent credit will now run through 2032. The new credit can be as much as thirty percent and covers an expanded array of improvement projects, from solar panels, including backup battery systems, to heat pumps to upgrading windows and circuit breakers.

Exclusions. Many provisions in the original Build Back Better Act have been dropped; stay tuned after November's midterm elections to see if any of these previous proposals rise from the dead:

- Adding an annual surtax on incomes above \$10 million
- Applying the 3.8% ACA surcharge on more forms of income
- Increasing income tax rates at the higher end, including changes to capital gains rates
- Introducing additional restrictions on carried interests
- Accelerating distributions from high-balance IRAs
- Changing rules for grantor trusts
- Modifying the deduction for state and local taxes
- Rolling back the basis step up on inherited assets
- Reducing the estate tax exemption amount

To discuss how this law or other tax provisions can affect your situation, please contact Chris Colombo at ccolombo@pgbank.com, Tom Ross at tross@pgbank.com, Claire Toth at ctoth@pgbank.com, or Laurie Wolfe at lwolfe@pgbank.com.