

## **SEO DETAILS:**

Page Title: The Inflation Reduction Act Introduces a New Corporate AMT: What Companies Need to Know | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] discusses the new Corporate AMT and the potential tax obligation changes that could impact certain corporations.

Headline: The Inflation Reduction Act Introduces a New Corporate AMT: What Companies Need to Know

### **BODY COPY:**

The Inflation Reduction Act (IRA) set out a new alternative minimum tax (AMT) for large corporations.

The goal behind the new AMT, according to Senator Chuck Schumer's office, is "to ensure the wealthiest ... corporations cannot avoid paying their fair share of taxes." The new AMT is expected to raise \$313 billion in revenue over the next 10 years.

The new AMT will not affect every corporation. Instead, companies will have to analyze whether the new ATM affects them. If it does, however, it could change tax obligations significantly for some companies.

## **Determining Whether a Company Must Use the New AMT**

## The Income Test for Domestic Corporations

Only large corporations must be concerned about the new AMT. Whether a company is an "applicable corporation" depends on the business's average applicable financial statement income (AFSI) for the prior three years.

Essentially, if a company's average AFSI was over \$1 billion over the past three tax years, that company will be subject to the new AMT. Because the tax applies after December 31, 2022, companies will need to review tax years 2020, 2021 and 2022 to determine whether it meets the income test.

If there are several corporations with common ownership, they must aggregate AFSI to determine whether they meet the income test.

### The Income Test for Foreign Corporations

In addition, United States subsidiaries of a foreign corporation are also subject to the new AMT. However, the income test is slightly different. These companies meet the income test if:

- 1. The overall foreign group meets the \$1 billion AFSI test for domestic corporations, and
- 2. The AFSI from United States sources collectively averages \$100 million or above over the same three-year period.

### **Business Structure Exemptions**

Regardless of the income test, certain business structures are exempt from using the new AMT. These structures include:

- S corporations
- Regulated Investments Companies (RICs)



Real Estate Investment Trusts (REITs)

Partnerships, by definition, are not subject to the new AMT. However, corporate partners need to include their share of the partnership's income in their AFSI calculation.

## Fund-Owned Portfolio Companies

There is also an exemption for fund-owned portfolio companies included in the statute. However, there is some discussion about whether this exclusion will actually apply in practice.

### The Extent of the New AMT

The AMT is a flat 15% of the AFSI. However, the AMT only applies to income if it is higher than the "regular tax" for the given year. The calculation also takes into account the foreign tax credit.

Essentially, the 15% AMT will apply only if 15% of the AFSI, less the foreign tax credit, is more than the normal tax imposed for that year. The structure is similar to the AMT previously imposed on corporations but repealed by the 2017 Tax Cuts and Jobs Act.

Companies might also be able to take advantage of certain credits and deductions that could decrease the tax, including a reduction for deprecation allowed under the Internal Revenue Code and general business credits of up to 25% of their net income tax over \$25,000.

## Planning for the New Corporate Alternative Minimum Tax

Although the new AMT does not go into effect until the tax year 2023, companies can start planning now to make that change. Specifically, companies should review their financials for the past several years to determine what their average AFSI may be. This might require gathering significant data and information, and starting now can make the process less daunting when compliance is necessary for the future. The new AMT comes with a new way to calculate whether it must be used, so companies cannot use prior methods.

As of right now, applicable corporations will keep their status in the future if they qualify to use the AMT for 2023, so delving into whether the company meets the income test is worth considering immediately. There are a few abstract methods to change whether a corporation would fall under the new AMT, but they are flexible. Essentially, the IRS determines which corporations should no longer pay the AMT if they qualified at one time. A change in ownership might also change whether the business is an "applicable corporation."

## **Getting Help with the New AMT**

As of this writing, there is no IRS guidance on the new AMT. The IRS hopes to have this guidance ready and available for companies by the end of 2022. Hopefully, companies will be able to review the guidance and work with their tax preparers to meet tax deadlines, specifically the first quarter estimates for calendar-year corporations on April 15, 2023.

A tax professional or accountant will be able to assist with AFSI calculations. They can also help companies plan for what this tax may look like in 2023 and beyond so companies can prepare accordingly.

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