

# GMS Flash Alert



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## United States - Senators Reach Deal on Reconciliation Package, Tax Provisions Included

On July 27, 2022, it was announced that Senator Joe Manchin (D-WV) had reached an agreement with Senate Majority Leader Chuck Schumer (D-NY) on tax, climate change, energy, and health care provisions to be included in a new bill titled the *Inflation Reduction Act of 2022* ("the bill").<sup>1</sup> The bill, which would raise an estimated \$739 billion in revenue, spend \$433 billion, and reduce the deficit by \$300 billion, is expected to be considered under the rules of budget reconciliation, which include a number of procedural hurdles that must be cleared. Majority Leader Schumer reportedly is aiming for the bill to be considered before the Senate leaves for its August recess (currently scheduled to begin on August 5). The bill would also require the support of all 50 Democratic senators and passage by the House (as well as signature by the president) to become law.

### WHY THIS MATTERS

Notably, the bill omits many of the high-profile individual income tax proposals that had been included in the House-passed *Build Back Better Act*,<sup>2</sup> and does not incorporate key provisions of the Biden Administration's budget proposals for fiscal year 2023<sup>3</sup> that would have had a significant impact on the cost of assignments, such as tax increases for high-income individuals and modifications to the foreign tax credit rules.

However, although the bill's individual income tax provisions are relatively sparse when compared to past proposals, the modifications to the carried interest rules included in the bill could have a substantial impact on the assignment cost of tax-equalized partners in the private equity, venture capital, or hedge fund industries.

The bill also seeks to improve taxpayer compliance by providing increased funding to the Internal Revenue Service (IRS), which may lead to increased audit activity. This underscores the importance of tax compliance for global mobility programs seeking to avoid potential monetary penalties and reputational damage.

### Individual Income Tax Proposals Included in the Bill

- Modification of the rules for carried interests in partnership interests held in connection with performance of services
- Various green energy and efficiency incentives for individuals, including:

- Extension and modification of the Nonbusiness Energy Property Credit
- Extension and modification of the Residential Clean Energy Credit
- Extension and modification of the New Energy Efficient Home Credit
- Modification of the New Qualified Plug-In Electric Drive Motor Vehicles Credit
- New credit for previously owned clean vehicles
- New credit for qualified commercial clean vehicles
- Extension and modification of the Alternative Fuel Refueling Property Credit
- Funding the IRS and improving taxpayer compliance

## Individual Income Tax Proposals Not Included in the Bill

Provisions that were included in the House-passed Build Back Better Act or the Biden Administration’s fiscal year 2023 budget proposals that are not included in the bill include:

- Tax increases for high-income individuals:
  - Raising the top individual income tax rate
  - Taxing long-term capital gains and qualified dividends at ordinary tax rates for certain high-income taxpayers
  - Imposing a surcharge on high income individuals, estates, and trusts
  - Imposing a minimum tax of 20 percent on total income, including unrealized capital gains for all taxpayers with wealth in an amount of more than \$100 million
- Treat transfers of appreciated assets by gift or death as realization events
- Modification of state and local tax deduction
- Extension of 2021 Child Tax Credit and advance payment
- End tax deferral for Internal Revenue Code section 1031 like-kind exchanges for certain high-income taxpayers
- Modification of foreign tax credit rules

### KPMG NOTE

KPMG LLP (U.S.) is actively monitoring the progress of the bill through the legislative process and will endeavor to advise of any significant developments.

### FOOTNOTES:

1 The legislative text and summary of the bill can be found [here](#).

2 See: *“Build Back Better Act’ tax proposals in pending House bill: KPMG analysis and observations,”* a publication of KPMG LLP (U.S.), for an overview of the tax proposals contained in the House passed Build Back Better Act (H.R. 5376).

3 See: *GMS Flash Alert* 2022-072 (March 31, 2022) for an overview of the individual income tax proposals contained in the Biden Administration’s FY23 budget that may impact global mobility programs and their assignees.

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