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Public Finance Impact of the Inflation Reduction Act's New Corporate Alternative Minimum Tax: Holland & Knight

President Joe Biden signed into law the Inflation Reduction Act (the IRA) on Aug. 16, 2022. The IRA (H.R. 5376, 117th Congress) includes a variety of legislation concerning energy, climate change, federal income tax, healthcare and deficit reduction matters. Notably for those in the public finance sector, the IRA includes a new limited corporate alternative minimum tax that is effective for tax years ending after Dec. 31, 2022, which could impact the demand for tax-exempt municipal bonds. The corporate alternative minimum tax had previously been repealed in 2017 as part of the Tax Cuts and Jobs Act.

The IRA creates a new revenue-generating 15 percent corporate alternative minimum tax (the Corporate AMT) (also known as the book minimum tax), which, when effective, applies to an “applicable corporation,” namely, a domestic corporation with average “adjusted financial statement income” (AFSI) in excess of \$1 billion over a three-taxable-year period or a foreign-parented corporation with a three-taxable-year average annual AFSI of \$100 million or more if they are part of a foreign-parented multinational group with an average AFSI exceeding \$1 billion. An applicable corporation does not include an S Corporation, a real estate investment trust or a regulated investment company. A corporation that is determined not to be an “applicable corporation” will remain exempt from the corporate alternative minimum tax consistent with its repeal in 2017 as part of the Tax Cuts and Jobs Act.

While the Corporate AMT is projected to generate \$220 billion of tax revenue over 10 years, it is expected that the Corporate AMT, the applicability of which could be expanded in the future, will have very limited immediate impact in terms of the number of corporate taxpayers affected. The U.S. Congress Joint Committee on Taxation has estimated that 150 companies (most of which are in the manufacturing sector) will be affected by the new Corporate AMT. With regard to the public finance sector, the affected taxpayers are banks, insurance companies, and property and casualty insurers, which are often purchasers of tax-exempt municipal bonds. It is also expected that tax disclosure language in offering statements and tax opinion language will have to be revised in order to account for the enactment of the Corporate AMT. Further, bond purchase agreements should be reviewed to determine whether this change will affect any of the so-called “outs” under such agreements.

Holland & Knight attorneys are working with borrowers, issuers, underwriters and lenders to address the impact of the Corporate AMT. If you have any questions regarding this alert, please contact one of the bond attorneys on Holland & Knight’s [Public Finance Team](#).

For an in-depth summary of the full IRA legislation, see Holland & Knight’s previous alert, “[The Inflation Reduction Act: Summary of the Budget Reconciliation Act](#),” Aug. 8, 2022.

Holland & Knight Alert

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