Please see the following from Dan Roehl, Vice President of Federal Government Affairs.

August 12, 2022

TO: State Restaurant Partners
FR: Dan Roehl, Vice President of Government Relations
RE: House Passage of the Inflation Reduction Act

This afternoon, the House passed the Inflation Reduction Act (IRA) by vote of 220 to 207. No changes were made to the bill, which passed the Senate on Sunday. It now heads to the President's desk, where he is expected to sign it.

Below is an analysis of the IRA by Aaron Frazier (aafrazier@restaurant.org) on our policy team. Work on this legislation has been a journey and Aaron's summary outlines some of the industry's successes along the way. It also provides background on key tax provisions contained in the new law.

Analysis

The Takeaway: After 18 months of legislative discussions, the vast majority of restaurants will not see their taxes increase. Only companies with over $1 billion in financial statement income, who pay less than a 15% effective tax rate, will be subject to a new corporate alternative minimum tax (CAMT) beginning in 2023. Additionally, publicly-traded companies will be subject to a 1% excise tax for stock buybacks beginning in 2023.

Successful Defense of Restaurants: In 2021, Congress and the Biden Administration began to consider tax increases that would both raise rates and broaden the amount of businesses subject to new taxes. Restaurants recovering from the economic effects of COVID strongly opposed these tax increases, and members of the National Restaurant Association identified four primary goals to prevent new fees. **We are pleased to share that our association's advocacy played a critical role in ensuring that none of these four tax increases are included in the current tax reconciliation bill:**

1) Any reduction to the qualified business income deduction, known as Section 199A, for thousands of restaurant businesses;
   - **$78 billion** in new taxes for pass-through entities like a partnership, LLC, or S-Corp (as approved by the House Ways & Means Committee in Sept. 2021).

2) Any 3.8% Net Investment Income Tax (NIIT) to the active business income of pass-through businesses, the vast majority of these entities representing small businesses.
   - **$203 billion** in new taxes for pass-through entities like a partnership, LLC, or S-Corp (as proposed in July 2022).

3) Any increase the corporate tax rate from 21% to 26.5%;

- **$540 billion** in new taxes for C-Corp entities (as approved by the House Ways & Means Committee in Sept. 2021).

4) Any repeal of the stepped-up basis, which would add an unworkable capital gains tax to inherited companies;

- **$100 billion** of GDP reduction due to the new capital gains tax (proposed by the Department of Treasury in March 2022).

Details on the Corporate Alternative Minimum Tax (CAMT): A 15% minimum tax on adjusted financial statement income for corporations with profits over $1 billion. Corporations will generally be eligible to claim net operating losses and tax credits against the CAMT, and eligible to claim a tax credit against the regular corporate tax (21%) for AMT paid in prior years, to the extent the regular tax liability in any year exceeds 15% of the corporation's adjusted financial statement income.

Provisions	Inflation Reduction Act: CAMT
Rate	15%
Exclusion for Tangible Assets	None
Exclusion for Payroll Costs	None
Loss Carryovers	Capped at 80% of adjusted financial income and limited to losses after 2019
Foreign Tax Treatment	Provides a credit for foreign taxes
Jurisdictional Calculation	Applies to the worldwide income of U.S. companies
Threshold for Application	$1 billion in financial profits
Income Definition	Financial profits as defined by accounting standards and adjusted to align closer to taxable profits
Treatment of Tax Credits	Provides a carveout for U.S. tax credits, such as elections in the energy tax credit can be disregarded for computing adjusted financial statement income
Treatment of Capital Investment	Capital investment deductions get clawed back

Details on the 1% Stock Buyback Tax: Beginning in 2023, any domestic U.S. corporation with stock traded on an established securities market will be subject to a non-deductible 1% excise tax when the corporation repurchases its stock. A stock repurchase is considered a "redemption" (Sec. 317(b)) or "any transaction determined by the [Treasury] Secretary to be economically similar." There are exceptions to the application of the 1% stock repurchase, which include:

1) If the repurchase is part of a reorganization and no gain or loss is recognized.
2) If the stock repurchased is contributed to an employer-sponsored retirement plan, employee stock ownership plan, or similar plan.
3) If the total value of the stock repurchased during the taxable year does not exceed $1 million.
4) If the repurchase is by a securities dealer in the ordinary course of business, or by a regulated investment company, a real estate investment trust, or if the repurchase is treated as a dividend.