No Amount of Hard Work Will Save the IRA Minimum Tax

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It is August in D.C. and the lethargy is palpable. But in a display of crack reporting, *The Washington Post* has located the hidden energy hotspot: The U.S. Department of Treasury is beavering away at implementing the Inflation Reduction Act's (IRA) 15 percent book income minimum tax. That is a sea change from earlier this year when Treasury figuratively shrugged its shoulders and gave up on the tax for 2023, saying: "Considering the challenges associated with determining the amount of a corporation's CAMT [corporate alternative minimum tax] liability and whether a corporation is an applicable corporation subject to the CAMT, the IRS will waive the penalty for a corporation's failure to pay estimated income tax with respect to its CAMT for a taxable year that begins after Dec. 31, 2022, and before Jan. 1, 2024."

The basic idea was that a large firm ($1 billion in financial income) would pay the greater of 21 percent of its taxable income or 15 percent of the income reported in financial statements (book income). The article goes on to describe the tax gymnastics necessary to craft a tax that is legal and fulfills the goal "that their labors still can erase decades of corporate tax dodging." It won't.

First, history is against them. A book income minimum tax was tried in 1986 and eliminated in 1989. The *Post* argues that problems stem from the fact that the IRA was hastily drafted. But in fact, the Tax Reform Act of 1986 was carefully constructed and it *still* failed. The problem is that it was too complex to administer and comply with. Sound familiar?

Second, policy logic is against them. Basing the tax on book income reported on financial statements was never a good idea (see Gordon Gray's analysis), especially when book income disallowed deductions that Congress intended corporations to take. Even advocates of the IRA acknowledged this was not good policy and have since softened the tax. On top of that, it provided an incentive to distort the financial reporting for tax purposes. Why would the United States want to do a U-turn on the progress made on this front following the Enron and WorldCom scandals?