Tax Insights

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ACCUITY

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Corporate Alternative Minimum Tax

Background

As part of the Inflation Reduction Act of 2022, Congress imposed a new Corporate Alternative Minimum Tax (CAMT) on "applicable corporations." An "applicable corporation" is a corporation with a world-wide average annual Adjusted Financial Statement Income (AFSI) that exceeds $1 billion, with at least $100 million of AFSI from a subgroup of U.S. based companies.

An analysis by the Joint Committee on Taxation originally estimated that approximately 150 taxpayers or 30% of the Fortune 500 companies would be subject to this each year. However, recent developments have revealed that compliance with this new law will be vastly more far-reaching than envisioned. As discussed below, most corporations will have an additional compliance burden even if they are not subject to CAMT.

Starting with tax year 2023, most corporations, including tax-exempt corporations, will need to complete and file IRS Form 4626 to determine whether they are an applicable corporation. Applicable corporations then must determine whether they have a CAMT liability. S-Corporations are not subject to CAMT.

Adjusted Financial Statement Income

Generally, AFSI is an applicable corporation's net income or loss on its GAAP basis audited financial statements, adjusted for items including:

- Eliminating intercompany transactions;
- Eliminating federal income taxes, war profits, income and excess profits taxes with respect to a foreign country or U.S. territory; and
- Allowing depreciation under Internal Revenue Code (IRC) §167 but removing depreciation under IRC §168 (bonus depreciation).

AFSI is then reduced by financial statement net operating losses (FSNOLs), but only for FSNOLs generated from tax years beginning after 2019. In addition, FSNOLs can only offset up to 80% of AFSI for any year.

For a tax-exempt entity subject to unrelated business income tax (UBIT), AFSI takes into account the AFSI of unrelated trades or businesses and income derived from debt-financed property to the extent that it is subject to UBIT.

CAMT Scenarios Based on AFSI

The following are common scenarios that corporations may fall under:

Scenario 1: Tax Year 2023 Simplified Safe Harbor for Corporations with AFSI Less than $500 Million

For tax year 2023 only, a corporation may use the safe harbor method to determine whether it is an applicable corporation subject to CAMT. Under this test, a corporation determines: (1) whether its three-year average annual AFSI is $500 million or less and (2) if applicable, for a foreign-parented multinational group (FPMG), that the AFSI of the U.S. subgroup is less than $50 million. The corporation must confirm that it meets the requirements of the safe harbor method on its IRS Form 1120 and does not need to file Form 4626. There is no CAMT liability under this scenario.

Scenario 2: Corporations with AFSI Greater than $500 Million but Less than or Equal to $1 Billion

If a corporation falls into this category, they are not eligible for the simplified safe-harbor method described in Scenario 1 above and must file Part I of Form 4626 to calculate the 3-year average annual AFSI. If the AFSI is less than or equal to $1 billion then only Form 4626, Part V, which requires the names, EINs and separate company financial statement income or loss for each member of the controlled group is required to be filed. There is no CAMT liability under this scenario.

Scenario 3: Corporations with AFSI Greater than $1 Billion

If a corporation falls into this category, then they can elect not to file Part I of Form 4626, but must file Parts II, III, IV and V. A CAMT liability may exist under this scenario.

Scenario 4: FPMGs with AFSI Greater than $1 Billion and U.S. AFSI of $100 Million or Less

If a corporation is a member of a FPMG with AFSI greater than $1 billion, the corporation must calculate the 3-year average annual AFSI for its U.S. subgroup. If the AFSI of the U.S. subgroup is no greater than $100 million, then only Parts I and V of Form 4626 must be completed and filed. There is no CAMT liability under this scenario.

Scenario 5: FPMGs with AFSI Greater than $1 Billion and U.S. AFSI Greater than $100 Million

Similar to Scenario 4 above, if a corporation is a member of a FPMG with AFSI greater than $1 billion, the corporation must calculate the 3-year average annual AFSI for its U.S. subgroup. If the AFSI of the U.S. subgroup is greater than $100 million, it may elect not to file Part I of Form 4626, but must file Parts II, III, IV and V. A CAMT liability may exist under this scenario.

How is CAMT Calculated?

An applicable corporation that is subject to CAMT will only pay additional taxes to the extent that the Tentative Minimum Tax (TMT) liability, calculated as 15% of AFSI, exceeds the corporation's regular tax liability plus any base erosion minimum tax. If the TMT is greater, then the corporation's tax liability is increased by the difference.

How is CAMT Calculated? (continued)

To the extent that a corporation pays CAMT because its TMT is greater than the regular tax liability plus any base erosion minimum tax, a related minimum tax credit is created. This credit can be carried forward indefinitely and can offset regular tax liability in future years.

What Should You Do Now?

For our existing clients to whom CAMT may apply, we will contact you to discuss the information that we will need from you.

If you have questions regarding how CAMT may affect you, please don't hesitate to contact us.
