



Inflation Reduction Act of 2022

On August 16, 2022, the [Inflation Reduction Act of 2022](#) (HR 5376) was signed into law. The Act includes several tax changes, such as a “book-income” corporate alternative minimum tax, enhanced research credit against payroll tax for small businesses, a one percent excise tax on stock repurchases and increased IRS funding. The Act features \$370 billion in spending on energy and climate change, including tax incentives and related provisions affecting transportation, manufacturing and many other industries. Examples include tax credits for developing renewable energy sources, and residential energy efficiency improvements, as well as a provision making certain energy credits transferable.

Certain provisions may be of interest to employers, although key details remain to be developed via regulations. In brief, these include:

Increased Research Credit Against Payroll Tax for Small Businesses

Currently, qualified small businesses can apply up to \$250,000 of specified research tax credits to which they are entitled to the employer’s share of Social Security tax. The Act permits qualified small businesses to apply an additional \$250,000 to payroll taxes but also specifies that it will offset the employer share of Medicare tax, beginning in 2023.

One Percent Excise Tax on Stock Repurchases

The Act created a new nondeductible one percent excise tax on stock repurchases of publicly traded corporations. However, many important definitions and rules will need to be promulgated by the Treasury Department to implement this new tax. Generally, a stock repurchase means any redemption of stock or any economically similar transaction, but any taxable repurchases will be adjusted by the amount of stock provided to employees. There are exceptions and exclusions, such as transactions in the nature of a reorganization; repurchase amounts under \$1 million; or transactions that are treated as a dividend.

Increase in IRS Funding

The Act provides an additional \$80 billion to the IRS over ten years, which is generally expected to increase IRS collections by over \$200 billion. More than half of the additional funding (\$46 billion) is dedicated to enforcement. Of the



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remainder, \$25 billion is dedicated to operations support, \$5 billion for systems modernization and \$3 billion for taxpayer services. IRS Commissioner Rettig has committed that this additional funding will be carefully invested to improve operations and the taxpayer experience.

Extension of Expanded Affordable Care Act (ACA) Subsidies

ACA healthcare subsidies were temporarily expanded in 2021 by the American Rescue Plan Act, which made ACA premium subsidies available to those earning over 400 percent of the federal poverty limit. The Inflation Reduction Act extended this increased subsidy for three years, through 2025. Although this provision means no change to employers and individuals who qualified for ACA premium subsidies, employers should be aware that these higher-income individuals may qualify for ACA-subsidized health coverage, which

could trigger ACA employer shared-responsibility penalties of \$2,750 (for 2022) per full-time employee if such individuals apply for and are awarded subsidized coverage. This also affects employer reporting on Forms 1095-C. ADP can assist with questions and support for ACA employer shared-responsibility penalties and employer Form 1095-C reporting.

Again, these important provisions will not be fully understood until regulations and tax forms and instructions are issued. Interested organizations should consult with appropriate tax and legal advisors to determine the specific impact that can be expected.

ADP Compliance Resources

ADP maintains a staff of dedicated professionals who carefully monitor federal and state legislative and regulatory measures affecting employment-related human resource, payroll, tax and benefits administration, and help ensure that ADP systems are updated as relevant laws evolve. For the latest on how federal and state tax law changes may impact your business, visit the ADP Eye on Washington Web page located at www.adp.com/regulatorynews.

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