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Commco Comments

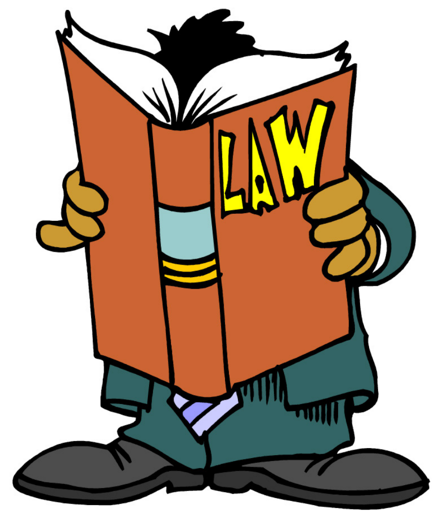
Timely Information and Updates for Employers and Retirement Plan Sponsors

The Inflation Reduction Act: What Employers Should Know

On August 16, 2022, President Biden signed the Inflation Reduction Act (IRA) into law. The new law seeks to lower costs for prescription drugs and other healthcare, curb energy costs, and take action on the climate crisis, while creating jobs and lowering the deficit by closing tax loopholes on corporations and ultra-wealthy individuals.

While the implications of the new law are vast and complex, below is a brief summary of provisions likely to have impacts specifically on businesses and employers.

Healthcare Impacts
Under the Inflation Reduction Act, insulin prescription cost-sharing for individuals covered under Medicare Part D will be capped at $35 per month, beginning in 2023. Also starting in 2023, manufacturers must pay Medicare a rebate if average prices of certain drugs increase faster than inflation. Beginning in 2025, annual Medicare Part D out-of-pocket prescription drug costs will be capped at $2,000 per year. The Act also allows Medicare to negotiate certain prescription drug prices (those that have no generic equivalent or biosimilar product and have been FDA-approved for more than nine years) with pharmaceutical companies. The first negotiated prices will take effect in 2026.



The impact of these changes to the employer-sponsored healthcare plan market is yet to be seen. While the intention was to decrease the cost to consumers, some parties have speculated that pharmaceutical companies may seek to shift profits by increasing prices within employer-sponsored health plans, leading to higher costs for members. However, the scale could tip in the opposite direction, with the employer market gaining access to Medicare prices.

The bill also provides an extension (through 2025) of the 2021 American Rescue Plan Act's expanded access to federal subsidies for people who buy health insurance on the Affordable Care Act (ACA) marketplace. As a result, employers who fail to offer affordable healthcare plans may see an increase in ACA utilization by their employees, thus leading to a higher frequency of receiving penalty notices from the Internal Revenue Service. In addition, the improvement to Medicare Part D drug coverage may affect the analysis of whether employer-sponsored prescription drug coverage is "creditable," a standard currently defined under the ACA as being at least as good as standard Part D prescription drug coverage.

Internal Revenue Service Expansions
The IRA allocates $80 billion to the Internal Revenue Service for hiring additional staffing, with $45.6 billion specifically allocated to enforcement activities. Households with annualized incomes of less than $400,000 are not expected to experience increased auditing levels; however, an increase in tax return auditing activities for both corporations and high-income individuals is expected. While it is uncertain at this time, there is potential that some portion of the new enforcement budget will ultimately lead to increased retirement plan audit activity as well.

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According to the White House, 55 of America's wealthiest corporations paid how much federal income tax in 2020?

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Clean Energy Credits and Incentives

In addition to credits for purchases of both new and pre-owned plug-in electric vehicles, the IRA includes numerous clean energy tax credits and incentives specifically for businesses. These include credits for companies that manufacture or construct energy efficient homes, a production tax credit for businesses that produce electricity from certain renewable sources, an investment tax credit for qualified energy property, and a qualified commercial clean vehicle credit.

To promote creation of living wage jobs and a pathway to lift a more diverse workforce into the middle class, the credit is dependent upon companies meeting certain prevailing wage and apprenticeship requirements. Companies who do not fulfill the wage and training requirements are only eligible for 20% of the credit amount to which they would otherwise be entitled.

Corporate Tax Changes

Citing a figure that 55 of America's largest, wealthiest corporations paid no federal income tax in 2020, the Inflation Reduction Act imposes a corporate alternative minimum tax of 15%. This applies only to large C corporations with an adjusted financial statement income (AFSI) over $1 billion; the Joint Committee on Taxation estimates that only 150 companies will be subject to this new minimum tax.

The Inflation Reduction Act provides enhanced incentives for start-ups to pursue research and development activity within the United States as originally included in 2015's Protecting Americans from Tax Hikes (PATH) Act. The PATH Act provided credits that small business start-ups could use against the employer's portion of the Social Security tax on all employees. The Inflation Reduction Act doubles the maximum allowable annual credit and allows the additional amount to be used to offset the employer's portion of the Medicare tax. This credit is intended to promote technological innovation and professional wage job growth within the United States.