



The ESOP Association Statement on Final Passage of Inflation Reduction Act

Today, the U.S. House of Representatives passed the Inflation Reduction Act (HR 5376). It will now advance to President Biden and is expected to be signed into law in the next ten days.

The ESOP Association commends the House and Senate for including provisions to specifically exempt employee stock ownership plans from new excise taxes on stock repurchases included in the Act. The ESOP Association worked closely with Congressional leaders to ensure their efforts to curb the use of stock repurchases as a tax avoidance strategy did not adversely impact ESOPs or their future formation.

James Bonham, President and CEO of The ESOP Association, said “We applaud the leaders in Congress for recognizing the importance of employee ownership and including provisions to support the future growth of ESOPs. The Inflation Reduction Act specifically exempts ESOPs from the new excise taxes on stock repurchases. Doing so will protect existing ESOPs that may engage in future stock purchases or repurchases through their ESOP. But the exemption now also has the potential to create a new incentive for employee ownership and shared capitalism. Our hope is that companies that engage in stock repurchases may now view the formation of an ESOP to benefit their employees as an opportunity. By utilizing an ESOP for future stock repurchases, it could be a win-win for the company as well as the employees who would benefit from the ownership as well as the increase in share value through repurchase. We are always appreciative of the support that employee ownership garners in Congress on both sides of the aisle.”

The tax on stock repurchases was seen as a revenue raiser for the Inflation Reduction Act and will be imposed on stock repurchases made by businesses, especially publicly traded companies and C corporations. In recent years, many large businesses have used stock repurchases to lower tax liability (lowering taxable income while also boosting share value). When the reconciliation bill was considered by the House last year, The ESOP Association worked successfully to ensure an exemption from this new excise tax for stock being purchased by an ESOP, since stock repurchase is critical to the function of an ESOP.

The ESOP Association worked to ensure this critical ESOP exemption was included in the final legislation. Based on TEA's efforts, this exemption will now be signed into law. The consequence of this provision is potentially very significant, especially for public companies, as a publicly traded company seeking to repurchase shares can avoid the excise tax by doing that transaction through an ESOP – a huge advantage.

The Inflation Reduction Act also includes a 15 percent corporate alternative minimum tax for businesses that average \$1 billion in book income over 3 years. Book income is an accounting figure reported on financial statements to shareholders (not the Internal Revenue Service). The book income tax was included in the Inflation Reduction Act to ensure companies that report large profits to shareholders pay a certain minimum percentage of federal income taxes. This

tax was targeted at roughly 150 of the largest companies, and ESOPs were neither targeted nor expected to be affected.

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About the ESOP Association

The ESOP Association is the largest organization in the world supporting employeeowned companies, the more than 10 million U.S. employees who participate in an ESOP, and the professionals who provide services to them. Headquartered at the International Employee Ownership Center in Washington, DC and operating as a 501©6 organization with the affiliated Employee Ownership Foundation, The ESOP Association conducts and funds academic research, provides more than 160 annual conferences and events attended by nearly 15,000 individuals, and advocates on behalf of employee owners and their businesses to federal and state lawmakers.

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