BULL & BEAR BULLETIN

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Inflation Reduction Act

The words fast and effective are words seldom used to describe the United States Congress. However, with the flurry of activity surrounding the Inflation Reduction Act the political world was stunned by how a deal to carve out the environmental piece of the Build Back Better plan appears, at the time of this writing, finally accomplished.

The environmental spending encompasses the bulk of the legislation. The plan provides billions of dollars in tax incentives toward wind, solar and battery development. Individual homeowners could also qualify for tax credits if they buy energy efficient windows, heat pumps and some ENERGY STAR compliant devices. The electric vehicle tax credit would be extended at the same $7,500 level for new cars that cost below $55,000. For trucks and SUVs, the price tag limit to receive the tax credits would end in the $80,000 range, at the time of this writing. For the first time, a $4,000 credit will be available for purchasers of used electric vehicles. The former cap on 200,000 tax credits per car manufacturer will no longer apply, so Tesla purchasers will once again be able to get the tax credit.

To get sufficient political support, incentives for oil, gas, coal and nuclear power were also included in the bill, although to a much smaller extent. Money for carbon capture is aimed at the coal industry, while gas and nuclear incentives are viewed as helping a “bridge fuel.” By political agreement to be fulfilled in a separate energy-infrastructure bill, The federal government would also be required to issue permits to a larger quantity of public lands for oil and gas exploration, with some favorable treatment for pipelines such as the Mountain Valley Pipeline that runs through West Virginia.

The bill would also cap Medicare drug costs at $2,000 per year per recipient starting in 2025. It would allow Medicare to negotiate on the price of 10 drugs rising to 20 drugs in 2026. It should be noted that the majority of these drugs will be falling off patent and will face generic competition anyway. When enacted, the legislation would also extend the Obamacare tax credits through 2025.

To fund this bill, a new 15% minimum corporate tax rate would apply to corporations with over $1 billion in annual profits, although the hedge fund industry successfully included provisions to shield it from higher taxes. A new 1% surtax on corporate share repurchases was also included, which in time will likely retard the return of shareholder returns via this method. $80 billion will be spent on increasing IRS enforcement of the tax code by hiring an army of auditors and new technology purchases. Enforcement is expected to raise $204 billion over the next 10 years. A provision from the opposition party to limit this new legion of tax enforcers to work only on returns with incomes above $400,000 did not pass, so be prepared for an IRS that has not wielded this much enforcement power since before 1995. IRS abuses in the early 1990s and 2009-2010 periods led to Congress cutting the enforcement budget, now that appears to be reversed.

The bill will in theory generate $300 billion more than it spends, which will go for deficit reduction over the life of the bill or about 2% of the current national debt. Considering the 2023 Federal budget is expected to generate an approximate $900 billion deficit, an argument can be made that no real deficit reduction will occur as the nation will consume thrice as much in terms of deficit spending next year.

As for the inflation reduction portion, according to economic studies, the legislation is expected to affect inflation via a range of decreasing the rate by 0.1% to increasing the rate of inflation by 0.1%. Perhaps Congress can work on an “Honesty in Bill Naming” law next.

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