EMPYRION™
WEALTH MANAGEMENT

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Monthly Insight

The Inflation Reduction Act of 2022: What's in It for You—And What's Not

Our friends in Congress spend a lot of time and thought, not just in drafting and passing legislation, but also in naming it. The idea is to give a bill a catchy name that will remind voters of what each shiny new law is doing for them—supposedly.

Think of some recent examples: the RESTORE Act of 2012, passed after the Deepwater Horizon disaster in the Gulf of Mexico (Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies"); the SECURE Act of 2019 ("Setting Every Community Up for Retirement Enhancement"); the CARES Act of 2020 ("Coronavirus Aid, Relief, and Economic Security Act"). And as of August 16, following President Biden's signature, we now have the IRA ("Inflation Reduction Act") of 2022—not to be confused with the popular Individual Retirement Account, which is not mentioned in or affected by the legislation.

But does the IRA of 2022 live up to its catchy name? Will it really reduce inflation? That remains to be seen. While there are no new tax provisions in the bill that will directly affect individual taxpayers, there are a number of provisions that will change some things for many Americans. Let's do a quick review, along with a look at the pros and cons.

1. New 15% minimum tax on large corporations and 1% excise tax on stock buybacks. American corporations with at least $1 billion in income will pay a minimum corporate income tax at the rate of 15%, and companies that buy back their own stock will pay a 1% excise tax on those purchases. The corporate tax is expected to reduce the US budget deficit by $222 billion in new tax revenues according to the Congressional Budget Office (CBO), and the stock buyback excise tax will add almost another $74 billion. Supporters say that reducing the federal deficit by almost $300 billion over the next few years is one way the new law reduces inflation; by decreasing the cost of financing the federal debt, the government saves money and reduces spending, which many analysts consider to be deflationary. Critics, however, point to the provision as de-incentivizing many of the public-interest measures corporations have been allowed—by Congress—such as investment in economically disadvantaged areas, prioritizing the hiring of workers experiencing barriers to employment, reducing their carbon footprints, expanding paid family and sick leave, and other "good corporate behaviors" that may now seem less advantageous with a "corporate alternative minimum tax" in place. Similarly, detractors say the 1% excise tax on corporate stock buybacks will hurt ordinary investors (53% of American households own corporate stock in one form or another) by reducing the financial benefit they receive as part-owners of the enterprise.

2. Prescription drug price reform and subsidies for medical insurance. The IRA of 2022 contains several provisions targeting healthcare costs. One feature of the law that has received a great deal of attention is the authority it grants to Medicare to negotiate the prices of certain prescription drugs on behalf of Medicare recipients. The intent, obviously, is to control the prices paid by retired Americans for necessary medications. Another provision, however, places a $2,000 annual cap on out-of-pocket prescription drug costs for Medicare recipients, starting in 2025. Reaching beyond retired Americans, the Act extends the subsidies for healthcare insurance premiums initially provided by the Affordable Care Act until 2025 (the subsidies were scheduled to expire at the end of this year). This is intended to maintain the affordability of medical insurance for those who are still working but are not covered by an employer plan or other policies. Supporters of these provisions say that reducing healthcare costs for Americans of all ages is anti-inflationary, since healthcare cost increases have historically significantly outpaced baseline inflation. Critics counter that the healthcare sector has not contributed in a major way to recent rises in inflation, so improvements for consumers in this area, while perhaps welcome, are not particularly anti-inflationary at present.

3. Energy and climate. In what has been described by some conservation groups as a "breakthrough" on climate policy, the IRA of 2022 offers enhanced inducements for households and businesses to invest in clean energy, reduced carbon emissions, and energy-efficient products. Some consumers could potentially qualify for $10,000 or more in tax breaks and rebates if they take full advantage of certain provisions, including a $7,500 tax credit for buying a new electric vehicle (as long as it costs less than $50,000--$80,000 for SUVs). The law also includes benefits for installing solar panels and creates new advantages for "clean" energy sources such as wind and solar while potentially saving US households an average of $220 annually in energy costs and reducing exposure to volatility in the price of fossil fuels, according to an analysis by the independent nonprofit research group Resources for the Future.

4. Funding for the IRS. The new law also contains $80 billion in funding for the Internal Revenue Service, which the agency says is urgently needed in order to address aging systems, recruitment and training of new agents, and enhancement of the service's ability to enforce collection of taxes. The CBO estimates this funding could deliver another $204 billion in federal revenue over the next ten years. Critics, of course, believe that this funding, which represents close to a 100% increase in the IRS budget, will simply increase the tax burden on the middle class in the form of more frequent audits and collections.

Bottom Line? The question remains: Will the Inflation Reduction Act of 2022 live up to its name? The answer depends on whom you ask and on which sources you place the greatest trust. A study by the Wharton School at the University of Pennsylvania found that the net effect on inflation of the Act, at least in the short term, was negligible or, as the study phrased it, "indistinguishable from zero." In fact, the Penn-Wharton Budget Model suggests that the legislation could even nudge inflation slightly higher in the short term. The nonpartisan Committee for a Responsible Federal Budget (CRFB), however, counters that the amount of deficit reduction forecast by the Penn-Wharton model is likely too low, thus understating the benefit of trimming the national debt. Further, they indicate that increased efficiencies around energy production and regulation are deflationary with respect to lowering energy costs (a major component of inflation). They also cite the deflationary effects of lower drug pricing and healthcare costs for consumers.

Ultimately, time will tell. And it's also important to remember that many factors impact inflation other than government policy. The net effects on individual American taxpayers are even harder to predict, depending as they do on many specifics such as the employment environment, household income-to-debt ratios, personal health circumstances, and other factors that are more difficult to quantify at a macro level.

Empyrion Wealth Managements recognizes that the economic, legislative, and financial landscape can seem difficult to navigate, especially in times of rapid change such as the present. That's why we are dedicated to staying abreast of the latest research and developments in tax law, economic forecasting, and investment. To learn more, click here to read our recent article, "Inflation: Not a Passing Fad."

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SOCIAL MEDIA DIGEST

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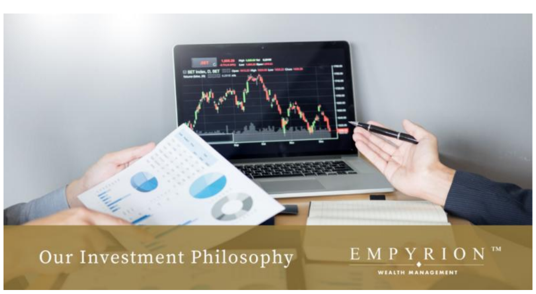

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KIMBERLY FOSS

President, CFP®, CPWA®,
CFT-I™ Candidate

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