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## **Inflation Reduction Act Takes Important Steps Forward and Should Be Enacted**

### ***Measure Lacks Key Health Provision and Steps to Cut Child Poverty***

#### **Statement of Sharon Parrott, President, on the Announcement of an Agreement on a Modified Inflation Reduction Act**

The Inflation Reduction Act moves toward a fairer tax system, makes health coverage and prescription drugs more affordable, and addresses the global challenge of climate change. This bill is an important step forward and should become law.

The tax package shrinks tax breaks for certain profitable corporations, reduces inefficient tax incentives for companies to buy back their stock, and gives the IRS resources so it can do more to ensure that high-income households and corporations pay what they owe. Revenues from these sound provisions and savings from lowering prescription drug costs will fund important climate and health investments. Senate leaders indicate the revised bill will reduce deficits by \$300 billion over the next decade, similar to the Congressional Budget Office's estimate of the original bill.

The provisions making Affordable Care Act (ACA) marketplace coverage more affordable will prevent 3.1 million people from losing coverage and becoming uninsured in 2023 while reducing the cost of coverage for millions more — an important step toward universal health coverage.

Efforts to address climate change through legislation have been blocked for many years. Making significant investments to reduce carbon emissions and support our transition to cleaner energy is a landmark accomplishment, even if further action will be needed over time.

While the bill won't have large near-term economic effects, its deficit reduction supports the Federal Reserve's efforts to bring down inflation and its health policies will help families facing high costs for coverage and prescriptions. Importantly, the steps to address climate change will pay dividends over time, while the tax policies both support these critical investments and begin to build toward a fairer tax system.

At the same time, unless the bill is amended on the Senate floor, policymakers will squander this critical opportunity to close the Medicaid coverage gap, which leaves 2.2 million people without access to health coverage because their states refuse to expand Medicaid. The real-world impacts of failing to close the coverage gap are staggering. Without coverage, people pay exorbitant out-of-pocket costs for care and when that isn't possible, they often go without the care they need. Many

accrue crushing medical debt. The impacts are serious — research has shown that failing to expand Medicaid results in unnecessary deaths. Closing the coverage gap would improve health and save lives at a modest cost. The Senate should use the amendment process to do so.

As the package took shape in the Senate, policies that would make a dent in the nation's appallingly high rate of child poverty — and that were included in the House bill — were left out. Failing to invest in our children through policies such as expanding the Child Tax Credit and helping families afford child care and rent means that too many will needlessly have their futures shortchanged. The research is clear — when we invest in our children and reduce poverty, we not only reduce near-term hardship, but we improve children's long-term health and education outcomes, benefiting the country as a whole.

In the final negotiations, policymakers improved the bill by adding an excise tax on stock buybacks. It reflects deeply misguided priorities, however, that the revenues were not used to close the Medicaid coverage gap, but to weaken other tax provisions — including protecting an egregious loophole for private equity fund managers and unnecessarily narrowing the corporate minimum tax provision.

Policymakers should now add the provision to close the coverage gap. They should pass this bill and then use opportunities this year in the appropriations process and year-end legislation to reduce child poverty, help families make ends meet, and — if still outstanding — extend coverage to people in states that have refused to expand Medicaid.

## **Additional Background**

### **Bill Makes the Tax System Fairer**

The agreement will begin to make the tax system fairer. It shrinks tax breaks for certain profitable corporations, reduces inefficient tax incentives for companies to buy back their stock, and gives the IRS resources to do more to ensure that high-income households and corporations pay what they owe.

The bill requires corporations with more than \$1 billion in average, annual profits to pay at least 15 percent in taxes on their profits. The provision was modified in final negotiations to exempt depreciation from the corporate minimum tax. These large and highly profitable corporations benefit from public investments in research, infrastructure, and education and they should contribute by paying a fairer amount of taxes. Claims that requiring them to pay some taxes will hurt the economy don't withstand scrutiny — very large corporate tax cuts enacted in 2017 had no discernable impact on the economy, and scaling back a small fraction of those tax cuts won't either. These are modest provisions and corporate taxes remain low.

There is more to do to ensure corporations pay a fair amount of taxes. For example, policymakers need to do more to prevent multinational corporations from shifting profits offshore to avoid taxes; they can do so by aligning our tax laws with the landmark multilateral agreement to modernize the international tax system reached last year. Congress will need to return to this issue as soon as possible to implement this important agreement.

The agreement adds a 1 percent excise tax on stock buybacks, which also was in the House bill. Corporations have two basic ways to distribute profits to their shareholders: issue dividends (the traditional route) or offer to buy back a certain number of their own shares, which in turn raises the value of remaining stocks held by individuals and institutions. While these are economically similar, they are taxed differently. Dividends are generally taxable when shareholders receive them. Under a stock buyback, in contrast, shareholders who sell their shares to the corporation at a gain owe capital gains tax but shareholders who *don't* sell their shares — typically the overwhelming proportion — see the value of their shares rise but don't pay tax on the gain until they sell. Their wealth increases but their taxes don't. By imposing a 1 percent excise tax on share buybacks, this provision is designed to correct this tax policy inefficiency.

It's disappointing that a provision was dropped in the final negotiations that would have narrowed the "carried interest" loophole that benefits wealthy private equity managers. While the revenues were replaced by the stock buyback provision, there were far more important uses for them.

Still, rebuilding revenues is an important step in reversing chronic underinvestment in the challenges facing the nation. More than two decades of tax cuts and deep cuts in IRS enforcement efforts have let wealthy households and corporations shirk their responsibilities to pay a fair amount of taxes.

### **Bill Makes Health Care More Affordable**

By extending for three years the American Rescue Plan's temporary enhancements to premium tax credits, the agreement protects 14.5 million people who signed up for marketplace coverage this year, including those with low and moderate incomes, from facing a spike in their premiums next year. Without the extension, premiums would have more than doubled or tripled for some. These spikes would have caused an estimated 3.1 million people to lose coverage and become uninsured, and would have strained household budgets for millions more. This is a significant step forward toward universal coverage and Congress should ultimately make these improvements permanent.

The agreement also takes steps to lower the cost of prescription drugs for both the federal government and consumers, including a \$35-per-month cap on the out-of-pocket cost of insulin.

However, the current bill does nothing to make affordable coverage available to the more than 2 million people with incomes below the poverty line who are uninsured because their states have refused to adopt the Medicaid expansion. Most of the people in the Medicaid coverage gap live in the South and 3 in 5 are people of color.

The failure to close the coverage gap is especially egregious in the wake of the Supreme Court decision to overturn *Roe v. Wade*. Closing the coverage gap is a concrete way to help ensure that the more than 800,000 women in the gap — most of whom live in states that have or likely will soon have strict abortion restrictions — have the comprehensive contraception coverage and regular access to health care providers they need to prevent unintended pregnancies, as well as pre-conception care that increases the likelihood of healthy birth outcomes. This is particularly important given our nation's unconscionably high rates of pregnancy-related deaths, a crisis that disproportionately impacts Black people compared to other groups. Closing the coverage gap would not solve the nation's abortion access and maternal health crises, but it is a concrete action that would help affected people right now.

The bill also leaves out other important provisions to improve maternal and child health, such as permanently allowing states to provide 12 months of postpartum coverage in Medicaid, guaranteeing that children receive Medicaid and the Children's Health Insurance Program (CHIP) for 12 uninterrupted months, and permanently extending CHIP.

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