Digging into the Details of the Inflation Reduction Act

Updated July 29, 2022

Author: *Catherine Rowland, Legislative Affairs Director (catherine@progressivecaucuscenter.org)*

Background

The Inflation Reduction Act of 2022 was announced on July 27, 2022. On July 28, the Congressional Progressive Caucus Center broke down the process and next steps for this legislation. This explainer will dig into some of its key elements.

Details around any associated side deals—like the proposed "permitting reform" referenced in the Schumer-Manchin statement—are still emerging. Moreover, some members of Congress are pushing for new policies to be added to the bill. As such, this update should *not* be considered exhaustive, but a topline summary of some of the deal's biggest policy changes as they are understood at the time of publication on July 29.

What's in the Inflation Reduction Act?

On Climate and Energy

The Inflation Reduction Act includes $369 billion in climate and energy provisions. **This would constitute the largest-ever U.S. investment in climate, with changes designed to accelerate the buildout of renewable energy, speed up the adoption of electric vehicles (EVs), and aid in the deployment of energy efficiency technologies in disadvantaged communities.** According to initial analysis by Rhodium Group, its passage would put the U.S. on a credible path to achieving roughly 40% greenhouse gas emissions reduction by 2030. While the bill would allow for tremendous progress in tackling the climate crisis, stakeholders have voiced concerns regarding certain provisions, including those on fossil fuel leasing described below.

Key climate and energy policies in the Inflation Reduction Act are as follows. For a more detailed summary of these provisions, see the Congressional Progressive Caucus Center's explainer, Analysis of Climate and Energy Provisions in the "Inflation Reduction Act of 2022."

- Boosting domestic clean energy manufacturing: Provides $60 billion to accelerate clean energy manufacturing of solar panels, wind turbines, and more in the U.S.
- Tax credits for electric vehicles (EVs): Provides $4,000 tax credits for consumers to use to purchase used EVs, and up to $7,500 for new EVs. Eligibility for the EV tax credits would be capped to an income level of $150,000 for a single filing taxpayer and $300,000 for joint filers for new vehicles, and at $75,000 and $150,000 for used EVs.
- Reducing methane emissions: Establishes a fee on excess methane emissions and offers up to $850 million in grants to industry to monitor and reduce methane emissions.
- New clean energy fund: Provides $27 billion to establish a new Greenhouse Gas Reduction Fund to accelerate the deployment of low-carbon technologies. This fund is designed to provide low-cost financing for clean energy infrastructure projects. The fund requires that at least 40% of the benefits of these investments flow to disadvantaged communities.
- Fossil fuel leasing: Requires the Department of the Interior to conduct oil and gas lease sales on federal land each year for a decade as a prerequisite to installing any new solar or wind energy. The legislation also requires fossil fuel leasing in the Gulf of Mexico and Alaska and reinstates a 80-million acre Gulf of Mexico lease sale from 2021. Consequently, the legislation guarantees continued fossil fuel leasing of more than 2 million acres onshore and 60 million acres offshore for the next decade. The greenhouse gas emissions associated with continued fossil fuel leasing will significantly offset emissions reductions found elsewhere in the legislation.

On Health Care and Drug Pricing

The Inflation Reduction Act includes provisions meant to bring down prescription drug prices as well as extend enhanced health insurance premium subsidies for people enrolled in Affordable Care Act (ACA) plans. Under current law, Medicare is not permitted to leverage its purchasing power to negotiate lower prescription drug prices for seniors. As a result, drugs typically cost significantly more in the United States than they do in many other countries. **This bill would, for the first time, allow Medicare to negotiate with drug companies to bring down prescription drug prices—albeit for a subset of the most expensive drugs**.

The Inflation Reduction Act would also extend the life of enhanced health insurance premium subsidies for people enrolled in ACA plans for an additional three years. Those enhanced subsidies are set to expire at the end of this year—meaning, without this legislation, many consumers will see their insurance premiums rise. A number of House Democrats are pressing Senator Schumer to insert an additional ACA-related provision to expand Medicaid coverage in states that have refused to do so.

Key health care and drug pricing policies in the Inflation Reduction Act are as follows:

- Medicare drug price negotiation: Medicare would negotiate price ceilings for the 20 most expensive medications by 2029. Pharmaceutical companies that refuse to negotiate would be hit with penalties.
- Capping seniors' out-of-pocket costs: The bill would ensure Medicare enrollees pay no more than $2,000 out-of-pocket for drugs annually.
- Ensuring drug prices don't rise faster than inflation: The bill requires drug companies to pay rebates to the government if the price of their drugs covered by Medicare Parts B and D rise faster than inflation.
- Lower Medicare premiums for those in need: The bill would provide 100% premium and cost-sharing subsidies to Medicare Part D enrollees living at 150% of the federal poverty level (FPL). Presently, these subsidies are only available to those living at 135% FPL.
- Reducing insurance bills: Enhanced premium assistance for people with ACA plans is set to expire at the end of 2022. The Inflation Reduction Act extends that assistance to 2025.
- Insulin costs: On July 28, Senator Schumer announced that Senate Democrats "will be adding things on insulin to the reconciliation proposal." Details are not available at the time of publication.

On Tax Fairness

The Inflation Reduction Act would raise significant revenue not only by lowering prescription drug prices under Medicare, but also by restricting a major tax loophole, forcing giant corporations to pay what they owe, and giving the Internal Revenue Service (IRS) more tools to go after wealthy tax evaders.

Key tax policies in the Inflation Reduction Act are as follows:

- 15% minimum tax on the biggest corporations: The bill would impose a 15% minimum tax on corporations with more than $1 billion in profits.
- Restricting tax breaks for private equity and hedge fund managers: The bill would increase the amount of time investment fund managers must hold

their investment funds in order to qualify for the so-called "carried interest loophole." By limiting this tax break, the bill will force more investment managers to pay what they owe in taxes.
- Allowing the IRS to pursue wealthy tax evaders: The bill would provide the IRS with $80 billion to enforce tax laws already on the books—a provision that is expected to bring in $124 billion in revenue, according to the Congressional Budget Office.

Where Do Things Stand Now?

At the time of publication, stakeholders inside and outside Congress continue to express cautious optimism about this deal. Nonetheless, some concerns remain around a number of provisions in the energy section and, of course, the numerous urgent priorities *not* addressed in this legislation.

For an overview of the expected next steps for this bill, see our explainer, Breaking Down the Inflation Reduction Act and Next Steps. For a deeper dive into the reconciliation process being used to advance the Inflation Reduction Act, check out our explainer on Reconciliation in the Senate.