



# Hibbs Brief

*Hibbs Institute for Business & Economic Research*

## Inflation Reduction Act: The Five-Minute Version

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In this issue of the Hibbs Brief, we discuss key elements and possible future effects of House Bill 5376, better known as the Inflation Reduction Act (IRA). We will provide an overview of the bill along with an analysis from various agencies on the bill's predicted effects over the next 10 years.

After ongoing negotiations in the U.S. Senate, the IRA was passed 51-50 (D-R) and sent to the President's desk. The bill was signed into law by President Biden on August 16, 2022. The bill and its provisions are intended to mitigate U.S. inflation and lower the federal deficit in a 10-year period. There are provisions that impact environmental and health care policies. Further, some provisions are designed to increase the Internal Revenue Service (IRS) funding, making tax collection more efficient. Additionally, the IRA created a new corporate alternative minimum tax.<sup>1</sup>

Notably, the IRA creates tax credits for consumers who purchase electric-powered automobiles or make investments in energy-efficient home products. Purchasers of electric automobiles will receive up to a \$7,500 in tax credits. The bill also designates \$9 billion for tax credits that incentivize energy-efficient renovations in households<sup>2</sup> and the manufacturing of energy-efficient materials and products such as wind turbines and solar power devices.<sup>3</sup> Overall, the IRA adjusts previous incentive structure for consumer and commercial purchase of energy-efficient products. According to the Congressional Budget Office (CBO), the climate and energy provisions of this bill are estimated to result in a net deficit increase of \$368 billion over a 10-year period.<sup>4</sup>

In terms of health care policy, the IRA includes a three-year extension of the Affordable Care Act (ACA) enhancements previously provided in the pandemic relief package (the

American Rescue Plan).<sup>5</sup> The CBO predicts a cost of \$64 billion on the ACA extension (from the end of 2022, to the end of 2025). Additionally, the IRA provisions allow Medicare to negotiate certain prescription drug prices. Prescription drug reform will limit drug price growth over time, while capping out-of-pocket costs to Medicare users and beneficiaries. Prescription drug pricing and other health provisions are expected to result in a \$288 billion net deficit reduction over the next 10 years.<sup>6</sup>

Another decision made in the bill is the increase in budget appropriations designated to the IRS. The IRA appropriates approximately \$80 billion for the IRS to use over the next decade to hire new auditors and implement new information technology systems. These changes will allow the IRS to leverage expanded personnel and conduct more accurate tax collection services across the nation. The CBO estimates that additional IRS enforcement activities would result into a \$124 billion deficit reduction over the next 10 years. Additionally, the IRA created a corporate alternative tax on all companies making over \$1 billion in a fiscal year. The CBO estimates this increased minimum tax will result in a \$313 billion deficit reduction over 10 years.<sup>7</sup>

The University of Pennsylvania released a brief report where IRA impacts are estimated via the Penn-Wharton Budget Model (PWBM). This model is a renowned, nonpartisan initiative that creates easily consumable economic policy data for the public. The PWBM predicts an overall impact of \$248 billion net decrease on the federal deficit, which is a \$57 billion difference with respect to the CBO estimates (\$305 billion) over a 10-year period (**Figure 1** and **Table 1**). In addition to the comparison, the report states that IRA impacts on inflation (using either CBO or PWBM estimates) are statistically indistinguishable from zero.<sup>8</sup>

<sup>1</sup> Congress.gov, H.R. 5376

<sup>2</sup> "The Inflation Reduction Act's Implications for Bidens Climate and Environmental Justice Priorities", Harvard, Environmental & Energy Law Program; August 12, 2022.

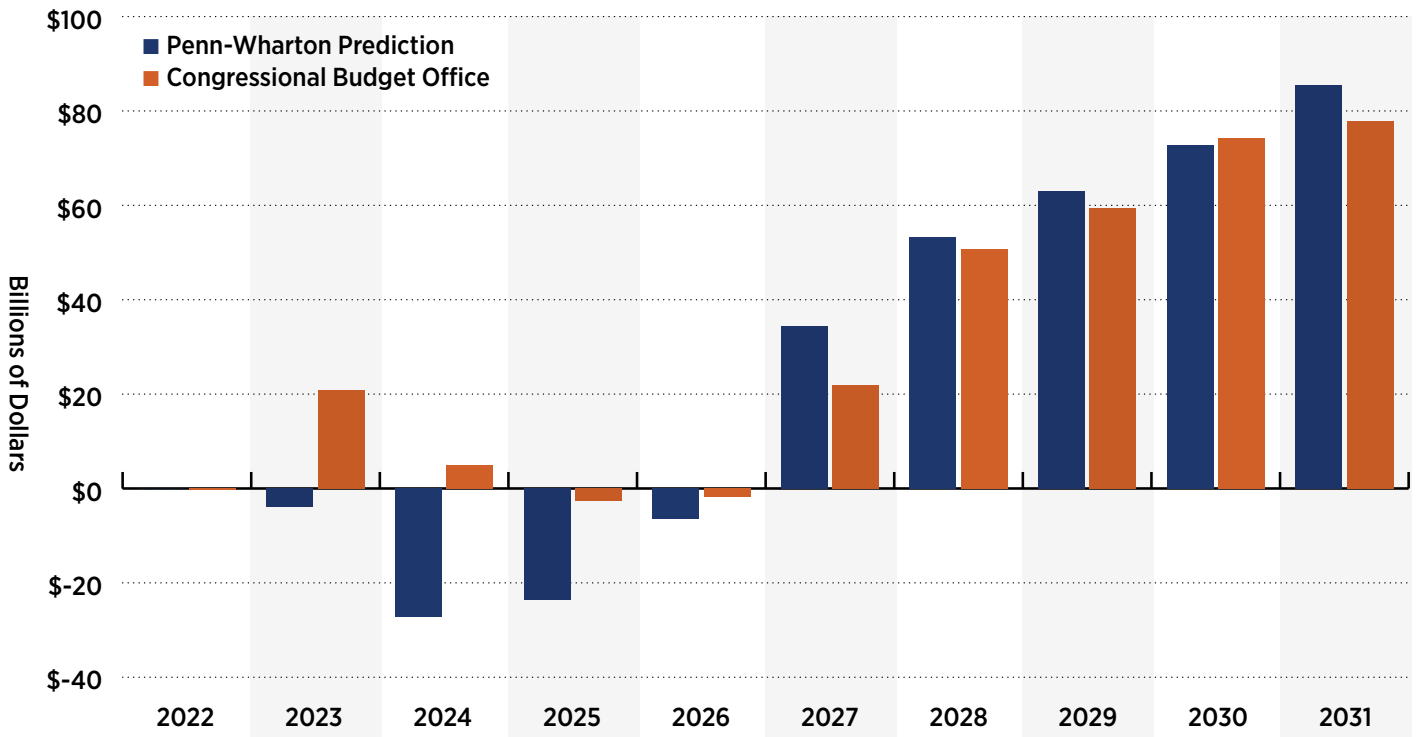
<sup>3</sup> "Inflation Reduction Act is a 'rising tide for the entire electric vehicle' industry", Yahoo Finance; August 16, 2022.

<sup>4</sup> "Inflation Reduction Act: Comparing CBO & PWBM Estimates", Penn-Wharton Budget Model, University of Pennsylvania; August 5, 2022.

<sup>5</sup> "Assessing the Macroeconomic Consequences of the Inflation Reduction Act of 2022", Moody's Analytics; August 2022.

<sup>6,7,8</sup> "Inflation Reduction Act: Comparing CBO & PWBM Estimates", Penn-Wharton Budget Model, University of Pennsylvania; August 5, 2022.

**Figure 1: Estimated Budgetary Effects of the Inflation Reduction Act of 2022 (\$ Billions)**



Sources: Penn-Wharton Budget Model, Congressional Budget Office.

**Table 1: Budgetary Effects of the Inflation Reduction Act of 2022 by Major Provision (\$ Billions)**

10-year net deficit reduction (-) or increase (+) from spending and revenues, billions of dollars

Provision	Penn-Wharton	Congressional Budget Office	Difference
Extension of expanded ACA subsidies	\$ -70	\$ -64	\$ 6
Climate and energy provisions	-369	-368	1
Minimum tax on book income of certain corporations	260	313	53
Carried interest tax reform	13	13	0
Prescription drug pricing and other health provisions	266	288	22
IRS funding	147	124	-23
<b>Total</b>	<b>\$ 247</b>	<b>\$ 306</b>	<b>\$ 57</b>

Sources: Penn-Wharton Budget Model, Congressional Budget Office.

Note: Figures may not add up due to rounding.

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