CITY OF
LONGBEACH

**Memorandum**

Date: August 22, 2022

To: Federal Legislation Committee

From: Thomas B. Modica, City Manager

Subject: **Inflation Reduction Act Overview**

On August 12, 2022, Congress passed the Inflation Reduction Act. In the Senate, the vote was 51 Democrats in favor to 50 Republicans against, with Vice President Kamala Harris casting the tie-breaking vote; and in the House, the Democratic majority carried the bill. President Biden signed the legislation on August 16, 2022. The Inflation Reduction Act is the final iteration of the Biden Administration's Build Back Better framework, providing $433 billion in investments to combat climate change and extend Obamacare coverage, and more than $300 billion in deficit reductions through corporate tax restructuring. This memorandum outlines the main provisions of the Inflation Reduction Act.

**Climate**

The Inflation Reduction Act allows nearly $375 billion in climate and energy spending, including electric vehicle (EV) incentives and expanded tax credits for renewable energy projects. It aims to boost EV manufacturing and sales by extending the per-manufacturer tax credit limit of $7,500 for EV purchases through 2032. Companies will have to comply with new battery and minerals sourcing requirements, and cars that cost more than $55,000 and pickups and SUVs that cost more than $80,000 will not qualify for the credits.

The bill provides various green energy tax credits as tiered incentives for projects that meet certain prevailing wage and apprenticeship requirements. Solar energy storage, clean electricity, software providers, and hydrogen and fuel cell companies stand to benefit from generous tax credits in the bill. Nuclear reactor operators could see a boon from a $30 billion production tax credit for nuclear power providers. The legislation also creates a new 10-year product tax credit for hydrogen production that rises to as much as $3 per kilogram depending on carbon intensity.

Furthermore, the Inflation Reduction Act bolsters clean energy efforts. It allows the Department of Energy (DOE) to grant leases, easements, and rights-of-way for offshore wind projects in parts of the Outer Continental Shelf off the coasts of Georgia, Florida, North Carolina, and South Carolina and directs the DOE to issue requests for information by September 30, 2025, for proposed wind lease sales in those parts of the Outer Continental Shelf. The measure also provides funding to implement a "Home Owner Managing Energy Savings" program, offering energy savings rebates for homeowners.

The bill provides $12 billion for the Environmental Protection Agency to offer financial and technical assistance on projects to reduce greenhouse gas (GHG) emissions and $8 billion for grants in low-income and disadvantaged communities. It also appropriates $7 billion for grants to states, municipalities, tribes, and nonprofits to enable low-income and disadvantaged communities to adopt and benefit from zero-emission technologies and $4.75 billion to award grants to implement plans to reduce GHG pollution.

To support clean energy solutions at the nation's ports, the Inflation Reduction Act authorizes $2.25 billion for grants and rebates to port authorities, air pollution control agencies, private entities, and governments with jurisdiction over ports to install zero-emission port equipment or technology. Awards could also be used to develop climate action plans to reduce GHGs and other air pollutants. Another $750 million will go to ports in areas that do not meet national ambient air quality standards. And for airports, the Inflation Reduction Act includes funding to advance sustainable aviation fuel, infrastructure, and low-emission technologies.

**Prescription Drugs**

The Inflation Reduction Act helps to cut expenses for seniors and prescription drug costs by allowing Medicare to negotiate drug prices, starting with ten high-priced drugs in 2026 and expanding from there. The bill allows Medicare, for the first time, to negotiate with pharmaceutical companies on drug prices, a change that Congress has been debating for decades with limited success. Beginning in 2023, drug manufacturers would have to repay the government the difference in profits above the cost of inflation on Part B and Part D drugs dispensed to beneficiaries under Medicare if they raise the price of a drug above inflation.

The bill also caps out-of-pocket costs for seniors' prescription drugs at $2,000 a year, and Medicare cost savings will be used to extend Obamacare subsidies for many middle-income households for three years, successfully avoiding a large increase in Obamacare premiums that would have gone into effect in January 2023.

**Taxes**

It is estimated that more than $300 billion in government revenue will be raised from the establishment of a 15 percent corporate minimum tax on large firms, a 1 percent excise tax on the value of stock buybacks, and an $80 billion boost to the Internal Revenue Service for enforcement, audit capacity, and upgraded technology systems. These changes go into effect for tax year 2023. The minimum corporate tax would apply to corporations with more than $1 billion in average annual income over a three-year period, affecting fewer than 150 companies in any given year, and is designed to increase levies on companies that report large profits to shareholders but claim many deductions and credits to cut their tax bills.

It should be noted that other major tax increases on high-earning Americans that Democrats proposed through earlier versions of the Build Back Better framework, such as proposals to double the capital gains rate, increase taxes on inheritances, and levy a surcharge on millionaires, did not make it into the final version of the Inflation Reduction Act. The bill also excludes Democratic proposals for new social programs, including childcare, tuition-free college, housing spending, and an expanded monthly child tax credit.

More information can be found in the attached one-pager and overview documents provided by the City's federal representatives, Dentons. If you have any questions, please contact Tyler Bonanno-Curley, Manager of Government Affairs, at (562) 570-5715 or Tyler.Curley@longbeach.gov.

ATTACHMENTS A – INFLATION REDUCTION ACT ONE PAGER
B – INFLATION REDUCTION ACT OVERVIEW

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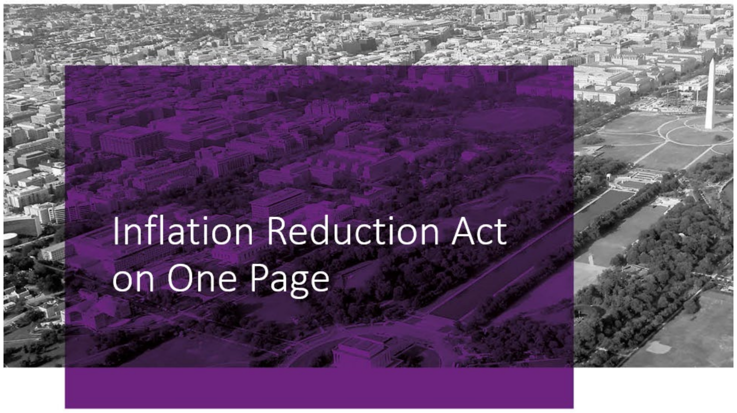


On Friday, August 12th, the House passed and sent to President Biden the Inflation Reduction Act on a party-line vote. President Biden is expected to sign the bill in short order.

The economic package is a far cry from what many in the party wanted. Yet, the legislation still amounts to the biggest changes to the health system in about a decade. It imposes a 15% minimum tax in tax years after 2022 on the income corporations report in financial statements (so-called book income). It contains a record $369 billion in new spending to fight climate change and bolster clean energy, it also includes several provisions that would prolong the life of fossil fuel infrastructure — a concession to Sen. Joe Manchin III (D-W.Va.).

**TAX CHANGES**

Companies to pay $296 billion more in levies over a decade. Households earning $500,000 face 1% increase in tax burden. Under the bill, Corporations will pay nearly $296 billion more in US federal taxes over the next decade, and middle-income households will see some tax cuts.

About $222.2 billion of the increase on businesses will come from a new corporate minimum tax that requires companies with at least $1 billion in profits to pay a minimum of 15% on the earnings they report to shareholders. An additional $73.7 billion stems from a 1% excise tax on corporations that buy back their own stock, the projections from the nonpartisan scorekeeper showed.

Households earning less than $100,000 will see net tax cuts through 2025, largely due to an extension of subsidies for Affordable Care Act premiums. After that, taxes for middle- and low-income households are largely unchanged. The bill also includes some tax incentives for electric cars and home-energy efficiency -- contributing to the decrease in tax burden.

Taxpayers earning at least $500,000, a group that's more likely to own stocks, will see their taxes go up by about 1% next year, reflecting indirect tax increases tied to the corporate-tax hikes. While the legislation doesn't include any direct tax increases on high-earners, the Joint Committee on Taxation's model directs some of the corporate-tax burden to shareholders.

**CLIMATE / ENERGY**

Executive Summary: The bill includes $4,000 tax credits for lower- and middle-income buyers to use to purchase used electric vehicles, and up to $7,500 tax credit for new vehicles.

The plan has $60 billion in incentives to bring clean energy manufacturing into the US. These include production tax credits to accelerate US manufacturing of solar panels, wind turbines, batteries, and critical minerals processing. The plan also includes investment tax credits to build clean technology manufacturing plants that make EVs, turbines and other products.

There will be tax credits for consumers who add renewable energy items to their homes, under the legislation, including efficient heat pumps, rooftop solar, electric HVAC and water heaters. The plan also includes $9 billion for home energy rebate programs for low-income consumers to make their homes more energy efficient and $1 billion in grants for affordable housing energy upgrades.

The Senate added, at the request of Sen. Kyrsten Sinema (D-Ariz.) $4 billion for drought relief to help Western states facing historically low water levels. The funding will be used to buy private water rights and help municipalities with conservation projects to increase the level of water in the Colorado River system.

**HEALTHCARE**

The legislation will let Medicare negotiate drug prices for the first time—a goal Democrats have chased for decades. That will start with 10 high-priced drugs by the middle of this decade and expanding from there on. It will cap out-of-pocket drug costs for seniors enrolled in Part D at $2,000 a year. But the Senate's parliamentarian spared drugmakers any penalties for raising prices in the commercial market.

The Congressional Budget Office estimated the drug-pricing negotiation provision will save Medicare about $102 billion over a decade. The savings for Medicare will be used to pay for three more years of subsidized Obamacare premiums, which will be a major boon for many Affordable Care Act-dependent Americans facing increases in ACA premiums come January, when subsidies from Covid relief legislation are set to expire.

The bill also caps out-of-pocket costs at $35 per month for insulin co-pays under Medicare programs, even though Republicans succeeded in removing the cap for private insurance.

Attachment B

DENTONS GLOBAL ADVISORS


On Friday August 12 the House passed and sent to President Biden the Inflation Reduction Act on a party-line vote. President Biden is expected to sign the bill in short order.

The economic package is a far cry from what many in the party wanted. Yet, the legislation still amounts to the biggest changes to the health system in about a decade. It imposes a 15% minimum tax in tax years after 2022 on the income corporations report in financial statements (so-called book income). It contains a record $369 billion in new spending to fight climate change and bolster clean energy, it also includes several provisions that would prolong the life of fossil fuel infrastructure — a concession to Sen. Joe Manchin III (D-W.Va.).

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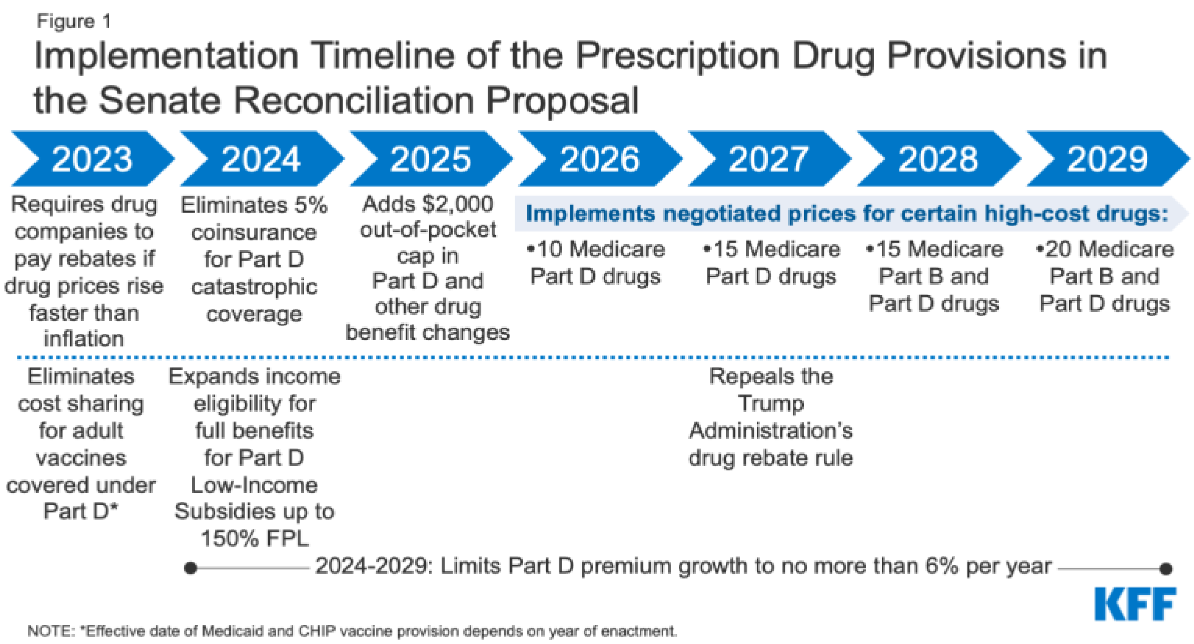
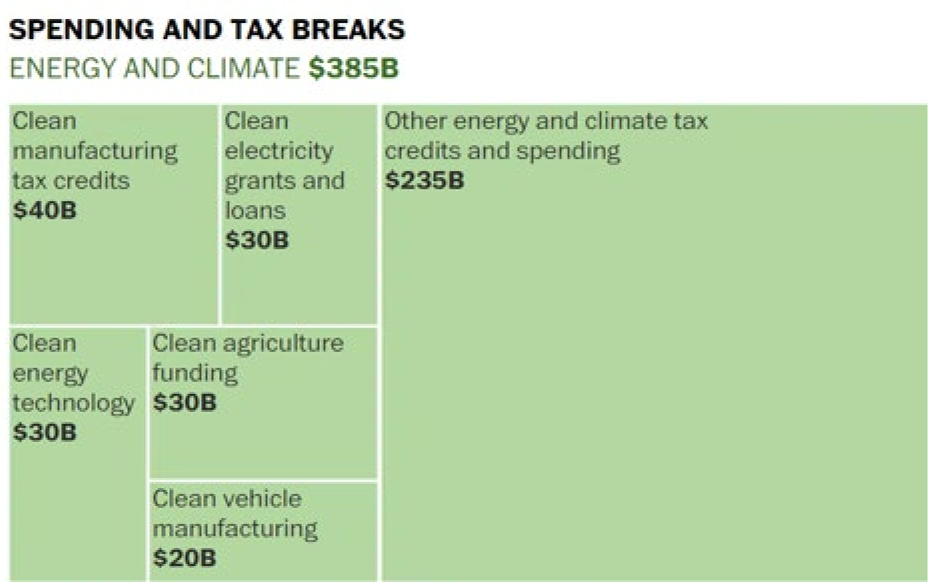
## Key elements of the legislation

• Medicare would be allowed to negotiate drug prices, starting with 10 high-priced drugs by the middle of this decade and expanding from there. It would cap out-of-pocket drug costs for seniors enrolled in Part D at $2,000 per year. The Senate parliamentarian spared drugmakers any penalties for increasing prices in the commercial market. The savings to Medicare will be used to pay for three years of subsidized Obamacare premiums.

**Timeline of Drug Pricing Implementation:**




• The bill allows roughly $374 billion in climate and energy spending such as expanded tax credits for renewable energy projects. It ends per-manufacturer limits for the $7,500 tax credit for electric vehicle purchases, a boost for electric vehicle makers. But to be eligible for the credit, the vehicles will have to be built in North America and carmakers will have to quickly end a reliance on China for the battery supply chain. Some automakers lobbied to make changes to the credit. The legislation extends the electric vehicle tax credit 10 years, until the end of 2032.



- Government revenue will be raised from the establishment of a 15% corporate minimum tax on large firms, a 1% excise tax on the value of stock buybacks and an $80 billion boost to the Internal Revenue Service for enforcement. These changes go into effect for tax year 2023. The minimum corporate tax would affect fewer than 150 companies in any given year. Last-minute changes narrowed its scope to protect private equity, as well as businesses that invest heavily in equipment and facilities, such as manufacturers.

While a far cry from the draft released early in 2022, the IRA is a significant policy and political victory for Democrats. Here's who else comes out on top and who takes a hit from the landmark bill.

## Winners and Losers

**Winners:**

The Wealthy

None of the billions of dollars in tax increases Democrats floated a year ago on high-earning Americans made it into the final version of the bill, including proposals to double the capital gains rate, increase taxes on inheritances and levy a surcharge on millionaires. Despite rhetoric from Democrats that they wanted the richest Americans to pay much more, there was not consensus within the party to pass a bill that would raise levies on the 1%.

Private Equity

Private equity fund managers were able to dodge a tax increase that Senator Joe Manchin wanted, but fellow moderate Democrat Senator Kyrsten Sinema insisted be taken out of the bill. Manchin had wanted to narrow a tax break known as carried interest, that allows fund managers to pay the lower capital gains rate on their earnings. The private equity industry was able to gain an additional win shortly before the final passage of the bill when a handful of Democrats broke with their party to vote on a Republican amendment that created a carveout for private equity-owned companies from the corporate minimum tax.

Manchin, Sinema

The entire contents of the bill were essentially selected by Manchin and then tweaked to fit Sinema's preferences. The two moderates amassed huge leverage with their willingness to accept no bill at all -- and face attacks from progressives -- rather than a bill with provisions they opposed. The pair were also able to score some direct benefits for their states as part of the negotiations: Manchin secured and agreement to permit the completion of the Mountain Valley Pipeline, and Sinema was able to get $4 billion for drought relief in western states.

Electric Carmakers

The deal extends a popular $7,500 per vehicle consumer tax credit for the purchase of electric vehicles, a win for EV manufacturers. But to win the backing of Manchin, companies will have to comply with tough new battery and critical minerals sourcing requirements that could render the credits useless for years for many manufactures. Not all manufacturers stand to benefit from the credit. New cars that cost more than $55,000 and $80,000 for pickups and SUVs won't qualify for the credits.

Renewable Energy

Solar, energy storage and software providers, hydrogen and fuel cell companies stand to benefit from generous tax credits in the bill. Nuclear reactor operators also could see a boon from a $30 billion production tax credit for nuclear power providers.

Oil Companies

Oil and gas got a boost alongside newer energy sources. The bill, which may mandate more federal oil and gas lease sales and boosts an existing tax credit for carbon capture. The legislation creates a new tax credit for hydrogen production that rises to as much as $3 per kilogram depending on carbon intensity.

Medicare, Obamacare Enrollees

The final bill caps out-of-pocket costs for seniors' prescription drugs at $2,000 a year and allows Medicare to negotiate the prices on 10 medications four years from now. The bill avoids a large January increase in Obamacare premiums for many middle-income people by extending subsidies for three years.

Deficit Hawks

Manchin negotiated $300 billion in deficit reduction into the bill, the first major effort by Congress in 11 years to reduce the difference between how much the country spends versus how much tax revenue it takes in. The deficit cuts are minor compared to the $24 trillion national debt but hawks say it's a start.

The IRS

The Internal Revenue Service will get an influx of $80 billion over the next decade to expand its audit capability and upgrade technology systems after years of being underfunded.

**Losers:**

Republicans

The GOP was confident they had beaten back Biden's tax and climate agenda and were stunned in late July when Schumer and Manchin announced a deal. While the GOP isa still favored to gain control of the House in the midterm elections, passage of the bill is a major setback for the GOP's policy aims. It does, however, give them a new issue for the fall campaigns.

Pharmaceutical Companies

The bill allows Medicare for the first time to negotiate with pharmaceutical companies on drug prices, a change that Congress has been discussing for decades with limited success, in part because of the drug lobby's power. The pharmaceutical industry was able to score a partial victory after the Senate parliamentarian blocked a portion of the bill that would have capped price increases for drugs in the commercial market. Drug-makers will likely offset some of their reduced revenue from Medicare negotiations with higher prices for patients with private insurance.

Tech Companies

Technology companies are set to bear the brunt of the two major tax increases in the proposal -- a 15% minimum tax on financial statement profits and a new levy on stock buybacks. The minimum tax is designed to increase levies on companies that report large profits to shareholders but can claim many deductions and credits to cut their IRS bills.

The SALT Caucus

The legislation does not include an expansion of the $10,000 cap on the state and local tax deduction, or SALT. The omission is a blow to residents of high-tax states in the Northeast and West Coast, and Representatives Josh Gottheimer of New Jersey and Tom Suozzi of New York, who led the effort to increase the size of the write-off.

Bernie Sanders

The $437 billion in spending is a far cry from the $6 trillion that progressives, led by Senator Bernie Sanders, envisioned at the start of Biden's presidency. The bill excludes all proposals for new social programs, including childcare, tuition-free college, housing spending and an expanded-child monthly child tax credit.

# Overview of Provisions in Senate Passed Inflation Reduction Act

## Tax Changes

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**<u>Corporate Minimum Tax:</u>** The measure will impose a 15% minimum tax in tax years after 2022 on the income corporations report on their financial statements, or "book income," with some adjustments.

The minimum tax will apply to corporations with more than $1 billion in average annual income over a three-year period.

US corporations that are members of a foreign-parented multinational group for any taxable year will need to have earned at least $100 million in such income. Foreign corporations that are engaged in a trade or business with the US will be treated as a separate domestic corporation that is owned by a foreign corporation.

Corporations will pay the larger of the minimum tax or the statutory corporate tax — which is currently 21%

Financial statement income will be:

- Reduced by depreciation deductions — deductions for the exhaustion or wear and tear of a physical property used for trade, business, or held for the production of income.
- Adjusted to disregard any amount of depreciation expense on a taxpayer's financial statement for a property.
- Reduced by amortization deductions — deductions for certain capital costs for non-physical assets over time — for wireless spectrum used in the business of a wireless telecommunications carrier and acquired after Dec. 31, 2007, and before the measure's enactment.
- Adjusted to disregard an amortization expense on a taxpayer's financial statement for wireless spectrum.

The minimum tax will apply also to corporations that have been in existence for less than three years, though S corporations, regulated investment companies, and real estate investment trusts will be excluded from the provision.

Under the minimum tax, as much as 80% of losses could be carried over to offset financial income in future years. Corporations could claim certain domestic and foreign tax credits to offset the minimum tax.

The revised 15% minimum rate is projected to increase revenue by $258 billion from fiscal 2022 through 2031..

<u>Stock Repurchases</u>: The measure will impose a 1% excise tax of the fair market value of any stock repurchase in a tax year by a publicly traded US corporation, including any subsidiary that has 50% or more of its stock owned by a corporation. Firms purchase their own shares as an alternative way to distribute income to shareholders, with a lower tax rate compared to divided distributions. The tax will also apply to stock repurchases of certain foreign corporations by subsidiaries and "expatriated entities."

The tax will take effect in 2023.

It will exempt stock repurchases that are:

- Less than $1 million.
- Contributed to an employer-sponsored retirement plan, stock ownership plan, or similar plan.
- Part of a reorganization with no gain or loss recognized.
- Made by a regulated investment company or a real estate investment trust.
- Treated as a dividend.

JCT estimated a similar provision in the House-passed bill will generate $124.2 billion in revenue over 10 years.

**IRS Funding**

The measure will appropriate the following amounts for the IRS in fiscal 2022:

- $45.6 billion for tax enforcement activities, including legal and litigation support, criminal investigations, and digital asset monitoring and compliance activities.
- $25.3 billion for operations support, including rent payments, facilities services, other IRS-wide administration activities, research and statistics of income, and information technology development.
- $4.75 billion for business systems modernization to provide a more personalized customer service.
- $3.18 billion for taxpayer services, including pre-filing assistance and education, filing and account services, and taxpayer advocacy services.

Amounts will remain available through fiscal 2031. The measure will specify that the IRS funding boost isn't intended to increase taxes on any taxpayer or small business with a taxable income below $400,000 or any taxpayer not in the top 1%.

CBO estimates that the IRS will collect about $203 billion resulting from the 10-year, $80 billion allocation for IRS tax enforcement and compliance, according to a summary from Senate Democrats.

The revised version omits language that will have granted hiring flexibilities to the IRS.

## Climate / Energy Provisions

**Energy Tax Provisions**

**Executive Summary:** The bill includes $4,000 tax credits for lower- and middle-income buyers to use to purchase used electric vehicles, and up to $7,500 tax credit for new vehicles.

The plan has $60 billion in incentives to bring clean energy manufacturing into the US. These include production tax credits to accelerate US manufacturing of solar panels, wind turbines, batteries, and critical minerals processing. The plan also includes investment tax credits to build clean technology manufacturing plants that make EVs, turbines and other products.

There will be tax credits for consumers who add renewable energy items to their homes, under the legislation, including efficient heat pumps, rooftop solar, electric HVAC and water heaters. The plan also includes $9 billion for home energy rebate programs for low-income consumers to make their homes more energy efficient and $1 billion in grants for affordable housing energy upgrades.

The Senate added, at the request of Sen. Kyrsten Sinema (D-Ariz.) $4 billion for drought relief to help Western states facing historically low water levels. The funding will be used to buy private water rights and help municipalities with conservation projects to increase the level of water in the Colorado River system

**Green Energy:** The measure will generally structure various green energy tax credits as tiered incentives, providing either a "base rate" or a "bonus rate" of five times the base amount for projects that meet certain prevailing wage and apprenticeship requirements. An additional increased credit amount could be claimed in certain cases if projects comply with domestic content requirements, such as ensuring that any steel, iron, or manufactured product is produced in the US.

The structure will apply to several new and existing tax credits, including:

- The production tax credit for electricity generated from renewable energy sources, which will be extended for facilities that begin construction before Jan. 1, 2025. The credit will be increased for facilities located in "energy communities" that: have an unemployment rate at or above the national average for the previous year; had direct employment in or tax revenue derived from the coal, oil, or natural gas sectors; or are a census tract where a coal mine or coal-fired electric generating unit has closed. The PTC for geothermal, solar, and wind facilities will also be extended.
- The investment tax credit for renewable energy property, which will be extended and modified for facilities that begin construction before Jan. 1, 2025. The credit will be extended through 2024 to include investments in energy storage technologies, qualified biogas property, and microgrid controllers. The credit will be increased for projects in energy communities and for solar and wind facilities that serve low-income communities.
- A new credit for qualifying zero-emission nuclear power produced by facilities placed in service before the measure's enactment.
- A new credit for the sale or use of a qualified mixture of sustainable aviation fuel through 2024. Fuel producers will have to be registered with the Treasury Department to claim the credit, which could be used to offset the excise tax liability.
- A new credit for the production of clean hydrogen — based on lifecycle greenhouse gas emission rates — for properties that begin construction before 2023.
- New production and investment tax credits related to clean electricity. The credits will be based on carbon emissions. Both will be available for facilities placed in service after 2024 and phase out beginning in 2032 or when US emissions targets are achieved.
- A new credit for the domestic production of clean fuels that will be based on their carbon emissions. It will apply to fuels produced after 2024 and will phase out entirely after 2027.

Credit for advanced energy projects beginning in 2023. The measure will provide as much as $10 billion in additional allocations for a program to award certifications for qualified investments in energy manufacturing facilities.

Several existing tax incentives will be extended, including the:

- Credit for carbon capture facilities that begin construction before Jan. 1, 2033.
- Credits for biodiesel and renewable diesel and alternative fuels and alternative fuel mixtures through 2024.
- Credit for qualified energy efficiency improvements for residential energy property through 2032. The credit will be increased to as much as $1,200 annually, from a $500 lifetime cap, for expenditures on windows, doors, heat pumps, and biomass stoves and boilers.
- Deduction for energy efficient commercial buildings beginning after 2022. A building will have to reduce its annual energy and power costs by more than 25%, instead of 50%. An increased deduction will be available for qualified retrofits.

<u>**Electric Vehicles:**</u> The measure will modify the existing tax credit that provides as much as $7,500 to individuals for purchases of qualifying electric vehicles. The credit currently phases out after at least 200,000 qualifying EVs are sold by a manufacturer.

The measure will change the credit through 2032 so it:

- Applies to "clean vehicles" such as electric and fuel cell vehicles.
- Applies to vehicles with final assembly occurring in the US.
- Equals $3,750 if a certain percentage of the critical minerals contained in the vehicle's battery is extracted or processed in the US or in any country with which the US has a free trade agreement or is recycled in North America. The applicable percentage will start at 40% for vehicles placed in service in 2023 and increase to 80% by 2027.
- Equals $3,750 if a certain percentage of the value of components in a vehicle's battery is manufactured or assembled in North America. The required percentage will start at 50% for vehicles placed in service in 2023 and increase to 100% by 2029.
- Phases out beginning at $300,000 for joint filers and $150,000 for single filers.

The measure will bar credits if inputs for a vehicle's battery are sourced or made in China, Russia, Iran, or North Korea. It will also bar credits for vehicles if the suggested retail price exceeds certain amounts.

The measure will also establish credits through 2032 for purchasing a:

- Used clean vehicle. The credit will equal $4,000 or 30% of the vehicle's sale price, whichever is lower. It will phase out at $150,000 for joint filers and $75,000 for single filers.
- Commercial clean vehicle manufactured primarily for use on public streets, roads, and highways. Vehicles that operate exclusively on railroads will be excluded. The credit will equal 30% of the vehicle's sale price or the incremental cost of the vehicle, whichever is less.

**Other Provisions:** The measure will allow claimants to apply for tax refunds or payments equal to the value of their tax credits through 2032. Payments will not be available for certain renewable energy projects, unless they're owned by state or local governments that are exempt from federal income tax. For tax years after 2022, claimants could also generally sell some or all of their credits annually to unrelated parties who will have to purchase them using cash.

The revised measure will allow an S corporation or partnership that owns qualifying facility property to receive such payments, with rules for distributing shares to a partner or shareholder. It also will provide an automatic 6% increase each year starting in fiscal 2023 for the portion of payments provided to entities under an election that's direct spending.

The measure also will:

- Reinstate a tax on crude oil and imported petroleum products at 16.4 cents per barrel to fund Superfund cleanups of hazardous sites. It will be adjusted for inflation beginning in 2023.
- Make permanent the excise tax on coal from underground and surface mines that funds the Black Lung Disability Trust Fund.
- Provide $500 million in fiscal 2022 for the Treasury Department to implement the measure's energy-related tax credits.

**Climate / Energy Spending & Other Changes**

**Offshore Wind:** The measure will allow Energy Department (DOE) to grant leases, easements, and rights-of-way for offshore wind projects in parts of the Outer Continental Shelf off the coasts of Georgia, Florida, North Carolina, and South Carolina withdrawn from leasing activities by two Trump administration memos.

It will also direct DOE to issue requests for information by Sept. 30, 2025, for proposed wind lease sales in those parts of the Outer Continental Shelf.

The department will be able to conduct wind lease sales in each area within the exclusive economic zone of the US next to the territories if they're feasible, there's sufficient interest in the area for such a project, and the department has consulted the governor of the relevant area. The provision will apply to areas near Puerto Rico, Guam, American Samoa, the US Virgin Islands, or the Commonwealth of the Northern Mariana Islands.

**Oil and Gas:** The bill will generally increase the royalty rate for new offshore oil and gas leases from 12.5% to a range from 16 2/3% and 18 3/4%.

The measure will also reinstate oil and gas leases and direct DOE to accept the highest valid bid for each unit in lease sale 257 in the Gulf of Mexico Outer Continental Shelf. DOE will also be required to conduct lease sale 258 by the end of the year, and the lease sales 259 and 261 by the end of 2023 in accordance with the 2017-2022 Outer Continental Shelf Oil and Gas Leasing Program.

**Home Energy Savings:** The measure will provide $4.3 billion for fiscal 2022 for the Energy Department to implement a "Home Owner Managing Energy Savings" or HOMES rebate program. The department will allocate funds to each state energy office according to the State Energy Program formula effective Jan. 1, 2022.

State energy offices will submit plans to implement the program, including procedures to calculate energy usage and savings. They may not use more than 20% of grant funds for planning, administration, or technical assistance.

The HOMES program will provide rebates for homeowners and aggregators for energy savings retrofits beginning with the bill's implementation through Sept. 30, 2031. It will provide for projects on single family homes the lesser of 50% a project's cost or rebates between $2,000 for energy savings of 20% to 35% or $4,000 for savings of 35% or more, respectively.

Owners of multifamily buildings and aggregators could also qualify to receive rebates capped at $200,000 or $400,000 for energy savings of either 20% to 35%, or 35% or more, respectively.

The program will also allow contractors performing a retrofit to claim their own $200 rebate for each home in a disadvantaged community.

No recipient may receive multiple federal rebates for the same upgrade.

**Energy Efficiency:** The measure will provide $4.28 billion for fiscal 2022 for grants for states to implement a high-efficiency electric home rebate program. It will provide an additional $225 million for tribes to implement a similar program.

The programs will provide rebates for qualified electrification projects such as electric heating and cooling or high-efficiency electric stoves of $840 to $8,000.

Total rebates may not exceed $14,000 per homeowner or entity seeking rebates for multiple electrification projects.

Recipients with incomes between 80% and 150% of an area's median income may not receive rebates covering more than half a project's cost. For those with incomes less than 80% of an area's median income, rebates could cover 100% of a project's costs. Similar thresholds will apply for multifamily buildings based on the incomes of the majority of a building's residents.

**Loan Programs:** The bill will provide $5 billion for fiscal 2022 for DOE to make as much as $250 billion in loans or refinancing guarantees for energy infrastructure projects, which could:

- Retool, repower, repurpose, or replace energy infrastructure no longer operating, or
- Enable existing energy infrastructure to avoid, reduce, utilize, or sequester air pollutants and greenhouse gas (GHG) emissions, which will be defined as including carbon dioxide, hydrofluorocarbons, methane, nitrous oxide, perfluorocarbons, and sulfur hexafluoride.

The measure will also provide $2 billion for fiscal 2022 for DOE to pay the costs of direct loans to nonfederal borrowers to construct or modify electric transmission facilities deemed necessary to the national interest. Loan terms may not last longer than either 90% of the projected useful life of a facility or 30 years—whichever is shorter. Loans also may not exceed 80% of a project's cost.

**Tribal Infrastructure:** The measure will increase the amount of loans DOE can guarantee through the Tribal Energy Loan Guarantee Program to as much as $20 billion, from $2 billion. Loans can be used for electricity generation, energy storage, and energy resource extraction, among other projects. The bill will also provide $75 million for fiscal 2022 for DOE to carry out the program.

**Building Codes:** The measure will provide $330 million for fiscal 2022 for grants to help states adopt residential and commercial building energy codes that meet or exceed the 2021 International Energy Conservation Code, the ASHRAE Standard 90.1-2019, or some combination of those codes. Funds could also be used to implement building codes achieving equal or greater energy savings. It will provide a further $670 million for states and local governments to adopt building codes to meet or exceed the zero-energy provisions in the 2021 IECC and to implement a plan to achieve compliance with newly adopted building energy codes.

**Greenhouse Gas Emissions**

**Loan Guarantees:** The measures will allow DOE to make as much as $40 billion in loan guarantees for projects to reduce, avoid or sequester GHG emissions and air pollutants through fiscal 2026. It will provide $3.6 billion for the costs of making guarantees.

DOE may not provide guarantees for loans to entities for projects receiving any other federal contracts, grants, or financial assistance.

EPA Greenhouse Gas Reduction: The bill will provide $12 billion for fiscal 2022 for the Environmental Protection Agency to provide financial and technical assistance on projects to reduce greenhouse gas emissions. An additional $8 billion for fiscal 2022 will be provided for grants to offer assistance on GHG reduction projects in low-income and disadvantaged communities.

It will provide $7 billion for fiscal 2022, for EPA to make grants to states, municipalities, tribes, and nonprofits to enable low-income and disadvantaged communities to adopt and benefit from zero-emission technologies.

The bill will also provide $250 million for fiscal 2022 for grants to states, air pollution control agencies, municipalities, and tribes to establish plans to reduce GHG pollution. A further $4.75 billion will be provided to award grants to implement those plans.

**Manufacturing:** The measure will provide $5.8 billion for fiscal 2022 for DOE to provide financial assistance for domestic, nonfederal, nonpower industrial or manufacturing facilities engaged in energy intensive industrial processes to purchase, install, retrofit or upgrade advanced industrial technology to reach net-zero GHG emissions.

**Justice Grants**: An additional $2.8 billion will be provided for fiscal 2022 for EPA to provide environmental and climate justice grants for community-led projects to reduce GHG emissions and mitigate climate and health risks.

**Ports:** The bill will provide $2.25 billion for fiscal 2022 for grants and rebates for port authorities, air pollution control agencies, private entities, and governments with jurisdiction over ports to install zero-emission port equipment or technology. Awards could also be used to develop climate action plans to reduce GHGs and other air pollutants.

An additional $750 million will be provided for ports in areas that do not meet national ambient air quality standards.

**Methane:** The EPA will impose a charge on methane emissions for oil and gas facilities that report more than 25,000 metric tons of carbon dioxide equivalent GHGs per year if they exceed the amount of oil or gas they produce by a certain threshold. The charge will be $900 for each metric ton above the threshold in 2024, rising to $1,500 in 2026.

The charges will not apply if the excess emissions are caused by an unreasonable delay in environmental permitting for any infrastructure to reduce emissions, or for emissions from plugged wells. Charges will take effect beginning 2024.

**Federal Buildings:** Funding for the General Services Administration's Federal Buildings Fund will include:

- $2.15 billion for fiscal 2022 to use construction materials and products produced with lower-carbon emissions.
- $975 million for the adoption of emerging and sustainable technologies.
- $250 million for the fund to convert buildings to high-performance green buildings.

**Construction Materials:** The bill will provide $2 billion for fiscal 2022 for the Federal Highway Administration to reimburse or provide incentives to states, local governments, metropolitan planning organizations, and public authorities to use materials produced with lower-carbon emissions. The incentive could cover as much as 2% of the incremental cost of using the materials. Funds couldn't be used for projects adding travel lanes for single occupancy passenger vehicles.

The measure will authorize the Federal Emergency Management Agency to provide financial assistance for low-carbon building materials and encourage low-carbon and net-zero energy projects.

**Vehicle Manufacturing**: The bill will provide $3 billion for fiscal 2022 for the Energy Department to provide direct loans for the advanced technology vehicles manufacturing incentive program to support facilities in the US in producing low or zero GHG emission vehicles.

Another $2 billion will be provided for fiscal 2022 for the department to provide grants for domestic production of efficient hybrid, plug-in electric hybrid, plug-in electric drive, and hydrogen fuel cell electric vehicles.

**<u>Heavy Vehicles</u>:** The measure will provide $600 million for fiscal 2022 to establish a clean heavy duty vehicle program providing grants and rebates to states, municipalities, tribes, and nonprofit school transportation associations to replace certain heavy-duty vehicles with zero-emission vehicles.

Another $400 million will be provided for similar grants specifically for projects in communities that don't meet national ambient air quality standards.

**<u>Alternative Aviation Fuel:</u>** The measure will provide $297 million for the Transportation Department to provide grants to state and local governments and nonprofits to support sustainable aviation fuel and low-emission aviation technology projects.

**<u>Diesel:</u>** The bill will provide $60 million for fiscal 2022, for grants, rebates, and loans identifying and reducing diesel emissions resulting from the transportation of goods and to address health effects on low-income and disadvantaged communities.

**Additional Energy & Environment Funding**

**<u>Drought Mitigation:</u>** The measure will provide $4 billion for fiscal 2022, available through fiscal 2026, for grants, contracts, or financial assistance for projects to mitigate drought in the "Reclamation States," which are primarily in the western US. Priority will be given to the Colorado River Basin and other basins experiencing comparable levels of long-term drought.

The measure will also provide in fiscal 2022:

- $2 billion for National Labs.
- $1.2 billion for national parks and public lands, including for hiring employees and for deferred maintenance projects.
- $850 million for the Environmental Protection Agency to provide grants, rebates, contracts, and loans for incentive programs to reduce methane emissions and waste reduction from petroleum and natural gas systems.
- $760 million for grants to state, local, or tribal governments to facilitate interstate electricity transmission lines.
- $700 million for EPA to provide grants, rebates, contracts, and loans for reducing emissions at marginal conventional wells.
- $700 million for programs to increase availability of high-assay low-enriched uranium.
- $550 million to the Bureau of Reclamation for domestic water supply projects.
- $250 million for EPA to provide grants supporting development of environmental impact documentation for construction materials and products that reduce emissions associated at all stages of the material's production.
- $200 million for a financial assistance program for states to create a training program for contractors completing energy efficiency and electrification projects.

## Other Matters

**<u>USDA Programs:</u>** The measure will provide $18.1 billion from fiscal 2023 through fiscal 2026 for the Agriculture Department's Commodity Credit Corporation programs for environmental quality and stewardship incentives. It also will provide $2 billion from fiscal 2022 through fiscal 2027 for the Rural Energy in America Program to provide loans and grants to agricultural producers and rural businesses for renewable energy systems, including funding specifically for underutilized technologies.

The measure will also provide the following amounts in fiscal 2022 for the department:

- $9.7 billion for assistance to rural electric cooperatives to promote resiliency, reliability, and affordability and for carbon capture and storage projects.
- $3.1 billion for loans to "distressed" borrowers whose agricultural operations are at financial risk as expeditiously as possible.
- $2.2 billion for competitive grants to promote conservation and tree planting by state, local, and tribal governments and nonprofit organizations, in addition to competitive grants for states through the Forest Legacy Program.

- $2.2 billion for financial assistance to farmers, ranchers, or forest landowners determined to have experienced discrimination in USDA farm lending programs before 2021. Assistance to recipients may not be more than $500,000.
- $2.2 billion for the US Forest Service to implement hazardous fuels reduction, vegetation management, and other projects on national forest lands and for the agency to provide environmental assessments.
- $1.4 billion for the National Resources Conservation Service to provide technical assistance and implement a carbon sequestration and greenhouse gas emissions quantification program, among other efforts.
- $1 billion in additional funding for rural electrification loans, including for energy storage projects. As much as half a loan could be forgiven if certain conditions are met.
- $550 million for assistance to nonfederal forest landowners for climate mitigation and forest resilience efforts.
- $500 million for a competitive grant program to increase the use of agricultural commodity-based fuels by strengthening biofuel infrastructure.
- $250 million for grants and loans to eligible entities to improve land access for underserved farmers, ranchers, and forest landowners, including those living in high poverty areas.
- $250 million for agricultural research, education, and scholarships at certain higher education institutions to provide internships and pathways to agricultural sector or federal employment.
- The measure will repeal a loan assistance program under the American Rescue Plan Act (Public Law 117-2) for socially disadvantaged farmers and ranchers.

**NOAA Programs:** The measure will provide the following amounts in fiscal 2022 to the National Oceanic and Atmospheric Administration:

- $2.6 billion for assistance to coastal state, tribal, and local governments for the conservation of coastal and marine habitats and resources.
- $490 million for weather and climate research and related equipment, including $100 million for a hurricane forecasting aircraft.
- $200 million for the construction of facilities to support national marine sanctuaries.

**USPS Fleet Electrification:** The Postal Service will receive $3 billion, with $1.29 billion for purchasing zero-emission delivery vehicles and $1.71 billion for installing the necessary infrastructure to support the vehicles at USPS facilities.

**Transportation Infrastructure:** The measure will provide $1.89 billion for fiscal 2022 for the Federal Highway Administration to provide grants to states, local governments, territories, or transportation authorities to increase neighborhood access and transportation equity or reduce the negative effects of infrastructure projects in disadvantaged or underserved communities.

A further $1.26 billion for fiscal 2022 will be provided for additional grants to economically disadvantaged or underserved communities that adopt anti-displacement policies or community land trusts.

**Affordable Housing Efficiency:** The measure will provide $1 billion to the Housing and Urban Development Department. Of those funds, $837.5 million will be for grants or loans to the owners and sponsors of affordable housing to implement or promote:

- Energy or water efficiency;
- Indoor air quality or sustainability;
- Zero-emission electricity generation or low-emission building materials or processes;
- Energy storage;
- Building electrification; and
- Climate resilience.

Eligible recipients will include providers under Section 8, the Supportive Housing for the Elderly program, Supportive Housing for Persons With Disabilities program, or rental and cooperative housing, as well as those who had project-based rental assistance, and housing assistance payment contracts for fiscal 2021. HUD may support as much as $4 billion in loans and may structure the loans to be converted to grants if an owner agrees to an extended period of affordability.

**Defense Production Act:** The measure will provide $500 million for activities under the Defense Production Act, which could be used for heat pumps and critical minerals processing, according to a summary of the package's energy provisions.

**Homeland Security:** The measure will provide $500 million for the Office of Chief Readiness Support Officer within the Homeland Security Department for sustainability and environmental programs.

**Tribal Programs:** The measure will provide the following for the Interior Department's Bureau of Indian Affairs:

$235 million in fiscal 2022 for a climate resilience and adaptation program to be disbursed to tribal governments or organizations, as well as a tribal fish hatchery program and the cost of administering the aid.

$150 million in fiscal 2022 for an electrification program to promote zero-emissions energy systems and associated home repairs and retrofitting to install such systems.

**Environmental Review:** The measure will provide $350 million for fiscal 2023 for the Environmental Review Improvement Fund established by the FAST Act (Public Law 114-94). The executive director of the Federal Permitting Improvement Steering Council can transfer money in the fund to different agencies to streamline environmental reviews for federal infrastructure projects, including conventional and renewable energy production projects.

## Healthcare

**Executive Summary**

The legislation will let Medicare negotiate drug prices for the first time—a goal Democrats have chased for decades. That will start with 10 high-priced drugs by the middle of this decade and expanding from there on. It will cap out-of-pocket drug costs for seniors enrolled in Part D at $2,000 a year. But the Senate's parliamentarian spared drugmakers any penalties for raising prices in the commercial market.

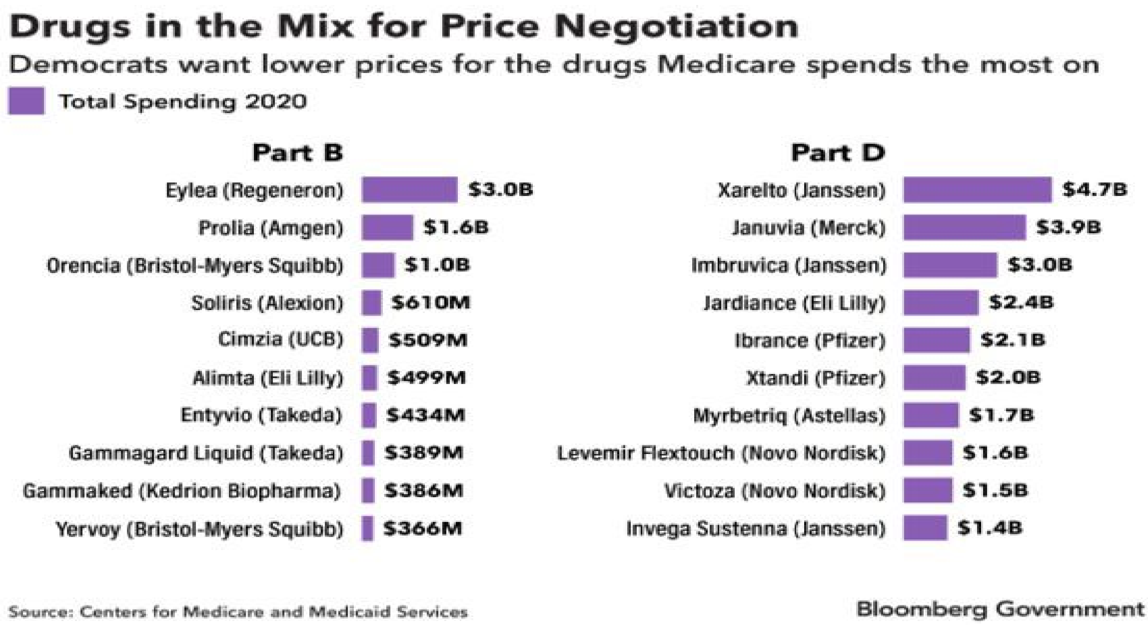
The Congressional Budget Office estimated the drug-pricing negotiation provision will save Medicare about $102 billion over a decade. The savings for Medicare will be used to pay for three more years of subsidized Obamacare premiums, which will be a major boon for many Affordable Care Act-dependent Americans facing increases in ACA premiums come January, when subsidies from Covid relief legislation are set to expire.

The bill also caps out-of-pocket costs at $35 per month for insulin co-pays under Medicare programs, even though Republicans succeeded in removing the cap for private insurance.

**ACA Premium Tax Credits**

The measure will extend through 2025 the temporary expansion of Affordable Care Act (ACA) health insurance premium tax credits under Public Law 117-2. The larger credits for those with household income between 100% and 400% of the federal poverty level (FPL), as well as expanded eligibility to those above 400% of the FPL, are scheduled to expire after 2022.

**Prescription Drugs:**




**<u>Drug Pricing:</u>** The measure will direct the Health and Human Services Department to establish a "Drug Price Negotiation Program" to negotiate a maximum price of high-cost prescription drugs beginning in 2026 for Medicare Part B, which covers medicines administered in a medical setting, and Part D, the program's prescription drug benefit.

The measure will require HHS to identify 100 drugs without competition that have been on the market for seven years and biologics that have been on the market for 11 years, and that have the highest spending under Medicare.

HHS will select 10 drugs from that list — or the maximum number eligible for negotiation that year if less than that — for negotiation in 2026 increasing to 20 drugs by 2029. This will close what a summary from Senate Democrats called a "loophole" in the House-passed version that will have allowed a "secretary to refuse to negotiate or negotiate fewer than the maximum number of drugs." The bill will exclude certain orphan drugs, plasma-derived products, or low spend Medicare drugs from the list of drugs eligible for negotiation.

Some negotiation delays will also be permitted for 2026 through 2028 for small biotech drugs or a new formulation of an existing drug. The bill will in some circumstances allow as long as two years of delay in negotiation for biologics if a biosimilar product is highly likely to be licensed within two years of the biologic drug becoming eligible for negotiation.

The price ceiling will be based on the lower of:

- A percentage of the average price determined by years on the market — 75% for those 9 to 12 years old, 65% for those 12 to 15 years old, and 40% for those more than 16 years old or more.
- A plan-specific enrollment weighted price for Part D drugs or average price for Part B drugs.

A drugmaker that does not successfully negotiate will face an excise tax of as much as 95% depending on how long it's not compliant. Those that charge more than the negotiated maximum price will pay a civil monetary penalty of as much as 10 times the difference in prices. The penalty for providing false information will be $100 million.

The measure will provide $3 billion for fiscal 2022, available until expended, to implement the negotiation program.

**<u>Inflation Rebates:</u>** Drugmakers will have to repay the government the difference in profits above the cost of inflation on Part B and Part D drugs dispensed to beneficiaries under Medicare Part B and Part D if they raise the price of a drug above inflation, beginning in 2023.

The earlier version would have required drugmakers to pay rebates on any covered Part B or Part D drug, regardless of if the patient received it through Medicare.

Drugmakers that do not provide the rebates will face a penalty of at least 125% of the rebate amount for Part B and 125% for Part D.

The measure will allow for some reductions or waivers of rebates if it could result in a shortage during a severe supply chain disruption.

**Medicare Part D:** The measure will also cap the out-of-pocket cost of prescription drugs under Medicare Part D for beneficiaries at $2,000 a year starting in 2025. That amount will increase with the annual percentage increase in average per capita expenditures for covered Part D drugs in the US. The measure also will allow enrollees to pay in monthly amounts.

The bill will cap the coinsurance rate for beneficiaries under the out-of-pocket cap beginning in 2025 and reduce the coinsurance rate that beneficiaries pay in the initial coverage phase to zero starting in 2024.

Under current law, initial coverage occurs after meeting the deductible which is $480 in 2022 but before entering the coverage gap after an average of $4,430 in costs as of 2022 — often called the donut hole. Coinsurance increases to 25% of costs, then decreases before the participant enters catastrophic coverage, which kicks in after $7,050 in out-of-pocket costs in 2022.

The measure will also expand Medicare Part D premium subsidies for low-income seniors to those between 135% and 150% of the poverty line starting Jan. 1, 2024.

The bill will also reduce the amount the government pays in reinsurance rates beginning in 2025 after an individual meets their out-of-pocket cap to between 20% and 40%, from 80%, of the allowable portion of gross covered prescription costs. Those costs will be subject to the new drug pricing provisions implemented by the bill.

The measure will also direct HHS to enter agreements with drug manufacturers to provide discounts on certain drugs beginning 2025. Discounts will be:

- 90% of the negotiated price of a drug before a beneficiary reaches their out-of-pocket cap.
- 80% of the negotiated price of a drug after a beneficiary meets their out-of-pocket cap.
- Manufacturers that don't provide discounted prices will pay penalties equal to 125% of the discounted amount.
- The measure will also bar increases in Medicare Part D premiums exceeding 6%.

**Drug Rebate Rule:** The revised measure will continue delaying implementation of the November 2020 drug rebate rule published under former President Donald Trump, until Jan. 1, 2032.

**Vaccine Coverage:** The legislation will require coverage of vaccines with no cost-sharing or deductible under Medicare Part D beginning Jan. 1, 2023. It also will retroactively reimburse Medicare Advantage plans the lost cost-sharing for 2023.

**Insulin:** The measure will exclude insulin products covered under Medicare Part D from applying to beneficiary deductibles under the program, beginning in 2023. The bill will also cap insulin copayments for Medicare beneficiaries to $35 a month for plan years 2023 through 2025 regardless of whether a beneficiary has reached the initial coverage limit or out-of-pocket threshold. Beneficiaries will also receive reimbursement for any excess cost-sharing or copayments made in the first three months of 2023.

For 2026 and subsequent years, the measure will cap the cost of insulin for Medicare beneficiaries before reaching the out-of-pocket threshold, at the lesser of:

- $35 a month.
- 25% of a maximum price to be negotiated by HHS.

The measure will also limit the monthly coinsurance for insulin-related durable medical equipment to 80% of the established amount under Medicare Part B, beginning July 1, 2023. The bill will also waive deductibles for such equipment under Medicare Part B beginning July 1, 2023.

HHS may adjust the payments it makes to suppliers of durable medical equipment for insulin to ensure beneficiaries coinsurance for insulin does not exceed $35 a month.

Health plans without deductibles for certain insulin products will still be treated as high-deductible health plans, for plans beginning after Dec. 31, 2022.

## Timeline of Implementation

| Health | | |
|---|---|---|
| **Policy** | **Effective Date** | **Details** |
| ACA tax credits | 1/1/2023 | Bigger ACA plans remain available |
| Prescription drug inflation rebates | 1/1/2023 | Rebates reduce seniors' drug costs |
| Free vaccines in Medicare | 1/1/2023 | Free vaccines in Medicare |
| Medicare Part D redesign | 1/1/2024 | Seniors' drug costs in Medicare are capped at $2000 in 2025, with some reduced costs in 2024 |
| Prescription drug negotiations | 1/1/2026 | Medicare begins negotiating the price of certain drugs in 2023 |
| $35 Insulin cap for Medicare | 1/1/2023 | Insulin co-pays in Medicare capped at $35/month |

| Clean Energy | | |
|---|---|---|
| **Policy** | **Effective Date** | **Details** |
| Clean electricity credits | Enactment | Credits for companies to invest in clean tech |
| Residential efficiency/electrification | Enactment | Consumers can get credits/rebates for solar panels and home efficiency improvements |
| Electric vehicle credits | Enactment | Consumers purchasing qualifying Eves can get credits |
| Clean energy manufacturing credits | 1/1/2023 | Credits for companies to manufacture clean energy products |
| Clean energy accelerator and R&D | Within 6 months | Programs for deployment, R&D, and supply chains to begin this year, with first grants within 6 months after enactment |

| Tax | | |
|---|---|---|
| **Policy** | **Effective Date** | **Details** |
| Corporate min. tax | 1/1/2023 | Companies will owe minimum tax starting in 2023 |
| Stock buyback tax | 1/1/2023 | Buybacks discouraged relative to investments/dividends |
| IRS enforcement | Enactment | Funding to initiate improvements to customer service |