

Policy Note

In a busy week last week in Washington, President Joe Biden signed the \$280 bn CHIPS and Science Act into law and the US Congress passed the \$740 bn (\$790 bn based on latest available CBO scoring) Inflation Reduction Act. These two pieces of legislation, over \$1 trillion in aggregate, follow a recent litany of legislative successes for the Biden administration in advance of the upcoming midterm elections, including the Burn Pit Veterans Act and the Bipartisan Gun Bill.

The \$280 bn CHIPS act, which passed Congress with broad bipartisan support in late July, includes \$53 bn of incentives for domestic semiconductor manufacturing and over \$170 bn of spending for scientific research, innovation and space exploration. The investment is an attempt to increase America’s competitive position with China in the high-tech semiconductor space (US share of global chip manufacturing has fallen to just 12% from 37% in 1990).

Despite its name, a study by the Congressional Budget Office (CBO), finds the \$740 bn Inflation Reduction Act will have only a negligible impact on inflation over the course of the year. The bill, which concentrates spending and tax incentives in the clean energy space, is expected to reduce emissions in the US by 40% vs. 2005 levels by 2030.

The bill raises roughly \$740 bn (\$790 bn by CBO estimates) in revenue via numerous provisions, including:










- A 15% minimum tax on book income (with carveouts for PE owned small businesses and allowance of some depreciation and amortization to offset income), effective for 2023
- A 1% excise tax on net share buybacks, effective from January 1, 2023
- \$80 bn in additional IRS funding to promote tax enforcement
- Extension of loan loss limitation tax breaks from the Trump tax reform
- New Superfund taxes on oil companies

In addition to \$437 bn (\$485 bn by CBO calculations) on clean energy and healthcare spending, the bill will also reduce the US deficit by \$303 bn over the 10 year budget window. The bill passed Congress last week and President Biden has indicated he will sign it into law imminently.

Breaking down spending provisions in the \$790 bn Inflation Reduction Act (based on latest available CBO scoring)

Clean Energy & Climate: \$386

Healthcare: \$98 bn

Clean Electricity Tax Credits \$161bn 	Air Pollution, Hazardous Materials, Transportation and Infrastructure \$40bn	Conservation, Rural Development, Forestry \$35bn 	Extension of Expanded ACA subsidies \$64bn 
	Individual Clean Energy Incentives \$37bn 	Building Efficiency and DOE Grants \$27bn 	Other Healthcare \$34bn 
	Clean Manufacturing Tax Credits \$36bn 		
	Clean Fuel & Vehicle Tax Credits \$36bn 	Other Energy / Climate Spending \$14bn	
US Deficit Reduction \$303bn 			

“Adam Smith’s invisible hand—popularized by Ronald Reagan in the 1980s and adopted by Bill Clinton in the 1990s—has been replaced by a muscular arm, in which Washington uses tax credits, tax rebates, loans, loan guarantees, regulations, tariffs, spending programs and other tools to nudge a market-driven economy that has proven far more turbulent and uneven than many people expected it to become a quarter-century ago.”

Jon Hilsenrath, senior writer for the WSJ

“The Biden and Trump era is one of a government that wants to play a much bigger role in what is produced, where it is produced, how it is produced and with what labor it is produced.”

Jason Furman, former chair of the White House Council of Economic Advisers under President Barack Obama

Note: The CBO estimates legislation includes \$790 bn of offsets to fund \$485 bn of new spending and tax breaks, though negotiators include \$740 bn of offsets and \$437 bn of investments.

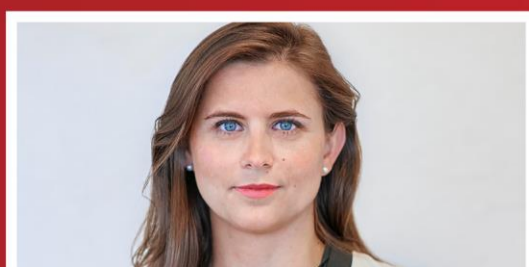
Source: CBO, CFRB, Bloomberg.

Global Corporate & Investment Banking Capital Markets Strategy Team



Tom Joyce
Managing Director

Tom.Joyce@mufgsecurities.com
(212) 405-7472



Hailey Orr
Director

Hailey.Orr@mufgsecurities.com
(212) 405-7429



Stephanie Kendal
Associate

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443