August 12, 2022

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NTU urges all Representatives to vote "NO" on the Inflation Reduction Act (IRA). This legislation would spend hundreds of billions of dollars on energy and health subsidies while purportedly offsetting those expenditures with higher taxes and reduced health care spending elsewhere, to bring down projected deficits on net. However, the agreement postpones major deficit reduction for future "out" years while frontloading spending in the next few years, precisely when high inflation is most challenging for the U.S. economy and consumers. Additional budget gimmicks and future subsidy extensions may erode a significant portion of the proposed deficit reduction, meaning the IRA may ultimately reduce neither inflation nor deficits.

Recent analysis of the legislation from CBO, NTUF, and the Penn Wharton Budget Model suggests that the IRA won't meaningfully reduce inflation in the coming years, because the bill could spend more than it saves in the first few years after enactment. By front loading some of the spending provisions and pushing the major deficit-reducing provisions out to 2027 and later, the Inflation Reduction Act likely has *no* impact on inflation in the next few years. Any deficit increases in the early years will add to the soaring costs the U.S. faces in servicing its debt. According to CBO assumptions, each $100 million increase in spending in 2023 will add roughly $27 million to debt interest costs over the decade.

The current state of the U.S. economy is far from optimal. Now is not the time to be recklessly increasing spending or raising taxes on a few dozen U.S. companies that employ at least tens of thousands of Americans. Tax increases on corporations in this bill could impact hiring, job retention, investment, research and development (R&D), and more, precisely at a time when the U.S. may be in a recession or is tipping close to one. Further, aggressive price controls on prescription drugs will result in higher launch prices, less investment in prescription drug R&D, and fewer innovations and cures, as economists have warned about prior drug price-control schemes.

We have additional and significant concerns with the massive proposed $80 billion increase to the Internal Revenue Service's (IRS) budget over the next 10 years – the majority of which is for increased enforcement efforts. The IRA offers no concrete provisions aimed at protecting taxpayers making less than $400,000 from burdensome IRS audits, and few robust oversight provisions or guardrails on an agency that, again and again, has failed taxpayers. Modest and carefully crafted funding adjustments to the agency's taxpayer services or modernization budgets may be in order, but only with significant reforms to the agency's processes and robust taxpayer protections. This $80 billion budget increase is deeply flawed and deeply concerning.

While the Inflation Reduction Act is likely to have no significant effect on inflation in the immediate future, there are no guarantees the IRA will reduce inflation or deficits in the long term either – after accounting for the rebate rule gimmick and the high likelihood that expanded ACA subsidies are eventually made permanent at a cost of $248 billion over a decade.

Roll call votes on the Inflation Reduction Act will be heavily weighted in NTU's annual Rating of Congress and a "NO" vote will be considered the pro-taxpayer position.

If you have any questions, please contact NTU Policy and Government Affairs Manager Alex Milliken at amilliken@ntu.org.

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