August 7- 2022 from thehill.com

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Winners and losers from the Democratic tax, health care and climate change bill

The Senate has passed a massive climate, tax and health bill that is a big win for Democrats, who have been trying to get some version of the measure completed for much of President Biden's term in office.

There are clear political winners and losers throughout the legislation, which makes changes to the tax code and provides large investments for efforts to fight climate change.

WINNERS

Charles Schumer

Sen. Charles Schumer (D-N.Y.) emerged as perhaps the biggest winner in his second year as Senate majority leader, keeping his caucus unified when it counted most to deliver major climate and prescription drug reform legislation, two top priorities that have eluded Democrats for years.

Schumer took a victory lap Sunday afternoon when he told reporters gathered in the Capitol that Democrats had passed the bill.

The senior New York senator had promised fellow Democrats big and bold legislative accomplishments for months and he delivered several of them in the Inflation Reduction Act.

Senate Democrats said they would have liked to pass even more expansive proposals to curb global-warming emissions, lower drug prices and reform the tax code.

But the overwhelming majority of them feel elated they managed to pass a bill that will reduce climate-changing emissions by 40 percent over 10 years and give the federal government new power to negotiate with the pharmaceutical industry.

Joe Manchin

Sen. Joe Manchin (W.Va.) maximized his political leverage as a conservative Democrat representing a state that former President Trump won by huge margins in 2016 and 2020 to reshape the Democratic agenda.

Manchin did so by opposing most of President Biden's ambitious social spending agenda, an extension of the expanded child tax credit, expanded access to child care, a national paid family leave program and long-term home care for the elderly and disabled.

Manchin argued that hundreds of billions of dollars in new social spending programs would become embedded into future federal budgets and change the social fabric of the country into one too dependent on government largesse.

He instead pushed through a plan to pay down nearly $300 billion in federal debt over the next decade by agreeing to a new 15 percent corporate minimum tax, Medicare authority to negotiate lower drug prices, a new excise tax on corporate buybacks and more funding for the IRS to enforce tax compliance.

Manchin secured significant concessions to the fossil fuel industry, such as requirements for the federal government to auction more land for oil drilling and tax credits for carbon capture technology to help coal-fired power plants stay competitive and language to speed construction of a gas pipeline through his state.

Kyrsten Sinema

Sen. Kyrsten Sinema (D-Ariz.) followed Manchin's strategy of using her reputation as a centrist to become a principal in the negotiations over the final shape of the bill.

Sinema knocked out proposals to raise the corporate tax rate from 21 percent to 25 percent and raise the top marginal income tax rate on the nation's wealthiest individuals and families.

She played a central role in negotiating the prescription drug reform piece of the Inflation Reduction Act, narrowing the scope of Medicare's negotiating authority to only 10 drugs starting in 2026 and then later 20 pharmaceuticals by 2029.

Sinema used her leverage right up until final passage of the bill by insisting that Schumer drop a proposal favored by Manchin to close the so-called carried interest tax loophole, which lets asset managers pay lower tax rates on income earned from profitable investments than many middle-class Americans do on regular income.

She paved the way for the one Republican amendment sponsored by Senate Republican Whip John Thune (S.D.) to be adopted to the bill, a proposal to exempt subsidiaries owned by private equity groups from the 15 percent minimum tax.

Private equity

The final bill received two last-minute concessions to Wall Street's private equity sector with the help of Sinema.

The original Manchin-Schumer agreement included a measure to close the so-called carried interest loophole that allows hedge fund and private equity managers to pay a 23.8 percent tax rate, well below the top tax rate of 37 percent.

In a lobbying blitz directed primarily at Sinema, whose top campaign donors include several private equity firms, the industry argued that increased taxes would hurt private investment in small businesses.

In a statement on Thursday, Sinema said that she would work to pass carried interest reforms in a future bill, but GOP opposition would likely block that effort unless Democrats maintain control of Congress after November's midterms.

Sinema and several other Democrats also voted on Sunday afternoon for an amendment proposed by Thune that featured a carveout for businesses owned by private equity firms, exempting them from the bill's central revenue-raising provision of a 15-percent minimum tax on large corporations.

Retailers

Big box stores successfully pushed for a minimum corporate tax while also opposing Democrats' initial plan to raise the corporate tax rate from 21 percent to 25 percent.

Retailers typically pay at or near the full corporate tax rate because they often don't qualify for a slew of tax breaks offered to manufacturers and foreign firms. While General Motors and Chevron paid next to nothing in federal taxes last year, Walmart and Target paid 25 percent and 22 percent, respectively.

"The agreement struck accomplishes all the objectives retailers have set out to achieve throughout the debate on corporate taxes: permanent lower rates, fairness to ensure all are contributing, and better enforcement to collect what is legally owed," the Retail Industry Leaders Association, which represents Target, Best Buy and others, said in a statement on the Inflation Reduction Act.

Climate change efforts

The planet itself is expected to be a winner of the reconciliation bill, which is expected to help the U.S. make strides in the fight against climate change.

The bill includes provisions such as tax credits to encourage clean energy deployment, which could help shift the U.S. away from fossil fuels, as well as other programs aimed at combating climate change.

A preliminary report from the REPEAT Project found that the legislation is expected to cut U.S. emissions by 42 percent by 2030 when compared to 2005 levels. That's significantly more than the 27 percent reduction estimated from current policy. Think tank Energy Innovation projected emissions would be reduced by 37 percent to 41 percent, and called the legislation "the most significant federal climate and clean energy legislation in U.S. history."

The U.S. is the second-largest global emitter, so cutting back its climate contribution is expected to be a big deal for the whole world.

Other measures expected to cut emissions include a program that puts a fee on excess methane emissions from the oil and gas sector, incentives for efficiency and capturing carbon emissions from the industrial sector and tax credits and rebates for electrification and efficiency upgrades for buildings.

The package isn't all good for climate change efforts. It also requires the Interior Department to open up new oil and gas drilling as a requirement to open up new acreage for solar and wind energy. A separate side deal that helped secure Manchin's support could also help advance a contested natural gas pipeline that runs through West Virginia and is backed by the senator.

LOSERS

Senate GOP

Unlike Schumer, who held a press conference Sunday afternoon to celebrate the legislative victory, Senate Republican Leader Mitch McConnell (Ky.) kept a lower profile and didn't take questions from reporters after the final vote.

Less than a month ago, Republicans thought they had successfully defeated Democrats' efforts to raise taxes and spend hundreds of billions on transitioning the U.S. economy to green technologies.

Feeling confident that Democrats would have to settle on a narrow reconciliation package focused on prescription drug reform and health insurance subsidies, Republicans helped Schumer pass a $280 billion bill to help the domestic semiconductor industry and invest in scientific research.

When Schumer and Manchin surprised their colleagues by announcing a sweeping deal to raise corporate taxes and subsidize electric vehicles, solar panels and wind turbines, Republicans felt betrayed.

Now vulnerable Democrats have an impressive list of accomplishments to tout on the campaign trail.

The silver lining for Republicans is they also now have a much larger stockpile of political ammo to use against incumbents such as Sens. Raphael Warnock (D-Ga.) and Catherine Cortez Masto (D-Nev.) after forcing them to vote on proposals to repeal a 16.4 cent a gallon tax on foreign oil imports and a ban on the IRS targeting individuals and small business owners who make under $400,000 a year with audits.

Some large multinational companies

The bill’s 15 percent minimum corporate tax deals a rare blow to corporate giants that have been paying lower federal taxes than the average small business for years.

The proposal only applies to companies with average annual earnings surpassing $1 billion, or $100 million earned in the U.S. for foreign-owned firms. As such, just 150 companies would be subject to the minimum tax each year, according to an estimate from the Joint Committee on Taxation.

Those include Amazon, which paid just 6 percent in federal taxes on its record $35 billion in profits last year. AT&T raked in nearly $30 billion but actually received $1.2 billion more in rebates from the federal government than it paid in taxes.

Companies that don’t benefit as much from accelerated depreciation — a lucrative deduction for capital investments that Sinema insisted should be excluded from the minimum tax following manufacturing industry lobbying — are likely the biggest losers.

For example, Bank of America paid a 3 percent federal tax rate from 2018 to 2019, but only 6 percent of its tax breaks stemmed from accelerated depreciation, according to an analysis from the Institute on Taxation and Economic Policy. But the deduction accounted for 100 percent of FedEx’s tax breaks as the company enjoyed a negative tax rate over the same period.

The bill’s 1 percent tax on buybacks, meanwhile, will force some of the biggest multinational companies to think twice before they approve share repurchases to boost their stock price and reward investors. Apple planned to buy back up to $90 billion this year, while Morgan Stanley and Nike announced $20 billion and $18 billion buyback programs, respectively.