Legislative Update: Senators Propose Energy, Climate, Health Care, and Tax Reconciliation Bill

Lewis-Burke Associates LLC – July 29, 2022

Senate Majority Leader Chuck Schumer (D-NY) and Senator Joe Manchin (D-WV) have reached a tentative agreement on an energy, climate, health care, and tax package referred to as the *Inflation Reduction Act of 2022*. Overall, the bill would raise approximately $739 billion in revenue and spend $433 billion on energy, climate, health care, and tax policies. The Senators call for using the over $300 billion remaining in savings for deficit reduction, which they argue could help combat inflation. The bill would not need any Republican support to pass but will require support from all 50 Democrats. The Senate plans to vote on the legislation next week and the House is prepared to return to session in the early part of August if the Senate passes the legislation. Below are highlights of major provisions of most relevance to research, higher education, and academic medicine communities.

**Energy and Climate Change**
The bill would provide $370 billion to support the deployment of clean energy technologies and reduce greenhouse gas emissions to help combat climate change and meet the Biden Administration’s target of cutting methane emissions by 52 percent from 2005 levels by 2030. In addition, through inclusion of a revised methane fee and attention to air pollution, the bill hopes to enable the U.S. to meet its goal of reducing anthropogenic methane emissions at least 30 percent by 2030 from 2020 levels.

Most of the funding would be for new and expanded tax credits to incentivize U.S. manufacturing and deployment of clean energy technologies, as well as energy rebates and other consumer tax credits for home energy-efficiency improvements to lower consumer energy costs. These include breaks for adopting wind and solar energy, support for nuclear energy generators, biofuel tax credits, and an increase in the value of subsidies for carbon capture. The bill would also impose the first-ever fee on methane emissions, where companies would face a new fee for excess methane emissions starting at $900 per metric ton in 2024 and rising to $1,500 per metric ton in 2026. To help oil and gas companies meet methane emission targets, the bill would also create a new $850 million Methane Emissions Reduction Program to provide grants, loans, and other incentives over the next five years to monitor, trap and report methane emissions from wells and other production sites. The bill would also provide $5 billion to the *Environmental Protection Agency (EPA)* to support greenhouse gas planning and implementation grants.

The legislation would also establish a national Greenhouse Gas Reduction Fund, which would function as a Green Bank with an initial capitalization of $27 billion to provide loans and invest in adoption of low-carbon, climate-resilient upgrades and technologies. Although this approach has already been implemented in several states and districts in the U.S., the creation of a federal program is intended to enhance private investment in climate-smart development and reduce risk of such investments nationwide. In line with the Administration’s environmental justice agenda, $8 billion of the initial capitalization would be required to target projects that benefit disadvantaged communities.

The bill would also provide funds to support research and development activities at key federal science agencies. The bill would provide $2 billion for *Department of Energy (DOE)* National Lab research facilities and infrastructure modernization to support innovation in clean energy technologies and other
DOE science and technology missions; $700 million for DOE to produce and make available high-assay, low-enriched uranium for domestic research, demonstration, and commercial use; and $100 million for interregional and offshore wind electricity transmission planning, modeling and analysis.

The legislation would also boost research and development activities at the National Oceanic and Atmospheric Administration (NOAA). Most notably, the agency would receive $150 million for climate and weather research, forecasting, and modeling. An additional $50 million would be dedicated to competitive grants to fund climate research focused on issues including “weather, ocean, coastal, and atmospheric processes and conditions, and impacts to marine species and coastal habitat.” While these funds do not specify an account or purpose, they will likely go toward the Climate Program Office within the Office of Oceanic and Atmospheric Research (OAR) to support its annual competitive research competition. The bill would also provide $190 million for the procurement of high-performance computing capabilities including processing and data management. NOAA would also receive $150 million for facilities, ports, and fisheries improvements in addition to $50 million to support the National Marine Sanctuaries.

The bill would provide $20 billion for climate-smart agricultural conservation programs at the U.S. Department of Agriculture (USDA). These investments would be distributed through a variety of programs that aim to reduce emissions, improve soil health, and increase carbon sequestration, including:
- $8.4 billion over five years for the Environmental Quality Incentives Program;
- $50 million for the Food Security Act;
- $3.2 billion over five years for the Conservation Stewardship Program;
- $1.4 billion over five years for the Conservation Easement Program; and
- $6.7 billion over five years for the Regional Conservation Partnership Program.

Additionally, USDA’s Natural Resources Conservation Service (NRCS) would receive $1 billion to provide technical assistance and $300 million for quantifying carbon sequestration and greenhouse gas emissions through field-based data collection. The bill would also provide $5 billion to support forest health programs, including grants to non-federal forest landowners for cooperative forestry and for tree planting in urban and underserved communities.

**Health Care**
Savings from Medicare Prescription Drug Benefit Redesign and Price Negotiation
The bill calls on the Secretary of Health and Human Services (HHS) to establish a drug price negotiation program in Medicare. The program would allow Medicare to negotiate and enter into agreements with manufacturers of select drugs. The bill would also cap beneficiary out-of-pocket costs at $2,000 per year beginning in 2025 and would eliminate the statutory five percent coinsurance for catastrophic coverage.

Implementation of negotiated prices for certain high-cost drugs would begin in 2026 with 10 drugs in Part B. The number of drugs would increase to 15 in Part D in 2027, 15 in Parts B and D in 2028, and 20 in Parts B and D in 2029 and beyond. The bill would also limit Part D premium growth to six percent per year between 2024 and 2029. Regarding inflationary increases, the bill would limit drug price increases in Medicare, and drug manufacturers would be required to issue a rebate if prices increase faster than the rate of inflation, as measured by consumer price index for all urban consumers (CPI-U). Price changes in future years would be compared to prices in 2021 and measured on the average sales price for Part B drugs and the average manufacturers price in Part D.
The legislation would expand access to the low-income subsidy program (LIS) under Part D. All beneficiaries earning between 135 and 150 percent of the federal poverty level (FPL) would have full access to the program.

The bill also seeks to improve access to adult vaccines. Beginning January 1, 2023, it would remove co-insurance and cost-sharing for all adult vaccines recommended by the Advisory Committee on Immunization Practices (ACIP) under Parts B and D. It would also require state Medicaid and Children’s Health Insurance Programs (CHIP) to cover all ACIP-recommended vaccinations without cost-sharing. According to the Congressional Budget Office (CBO), the prescription drug provisions of the bill would save approximately $287 billion.

**Expenditure on Affordable Care Act Premium Subsidies**
The bill would extend the availability of enhanced premium tax credits for the purchase of health insurance on the Affordable Care Act marketplaces. The enhanced premium tax credits, established by the American Rescue Plan, temporarily provided premium assistance to individuals with incomes above 400 percent of the FPL. The bill would extend the enhanced premium tax credits through 2025. CBO estimates that this provision would cost approximately $64 billion.

**New Tax Revenue**

*Corporate Minimum Tax*
The bill would amend the Internal Revenue Code and place a minimum tax on 15 percent of the adjusted financial statement income for a given taxable year for corporations that earn a profit of $1 billion or more. The current top corporate income tax rate is at a flat 21 percent set by the Tax Cut and Jobs Act, but many corporations pay less than that amount. The provision would in effect for the taxable years that begin after December 31, 2022. According to the Senators, the Joint Committee on Taxation estimates that this provision would raise approximately $313 billion.

*IRS Improvements and Taxpayer Compliance*
The bill would improve taxpayer compliance by appropriating an additional:

- $3.1 billion over ten years for taxpayer services, which would include pre-filing assistance and education;
- $45.6 billion for increased tax enforcement;
- $25.3 billion for Internal Revenue Service (IRS) operations, including IRS-wide administrative activities, and information technology upgrades; and
- $4.7 billion for IRS business systems modernization focused on improving customer service.

*Carried Interest*
The bill would modify taxation on gains from a partnership interest by treating them as short-term gains and subjecting them to a higher taxable rate. This provision of the bill would close the so-called “carried interest loophole.” The Joint Committee on Taxation estimates that this provision would raise approximately $14 billion.