

AUGUST 5, 2022



How the So-Called “Inflation Reduction Act” Would Actually Hurt Americans’ Pocketbooks

Hayden Dublois
Data & Analytics Director

Jonathan Ingram
Vice President of Policy and Research

KEY FINDINGS



BIDENFLATION HAS PLUNGED THE ECONOMY INTO A RECESSION.



THE "INFLATION REDUCTION ACT" WOULD INCREASE INFLATION, NOT REDUCE IT.



THE "INFLATION REDUCTION ACT" WOULD RECKLESSLY INCREASE SPENDING.



THE "INFLATION REDUCTION ACT" WOULD HIKE TAXES ON AMERICANS, ESPECIALLY THE WORKING AND MIDDLE CLASSES.

THE BOTTOM LINE:

CONGRESS SHOULD REJECT THE SO-CALLED "INFLATION REDUCTION ACT"

Overview

Inflation is at a 40-year high, gross domestic product (GDP) has been shrinking for two straight quarters, the stock market has tumbled, and labor force participation is hovering around a 45-year low.¹⁻⁴ Despite the poor economic outlook under the leadership of President Joe Biden, congressional Democrats have advanced legislation that would take an even bigger bite out of Americans' pocketbooks.

The so-called "Inflation Reduction Act" under consideration in Congress would not only fail to tame inflation, but it would actually increase reckless spending and raise taxes on hardworking Americans. As a result, consumers would pay more—to the IRS and on everyday goods and services.



AS A RESULT, CONSUMERS WOULD PAY MORE—TO THE IRS AND ON EVERYDAY GOODS AND SERVICES.

Bidenflation has plunged the economy into a recession

The American economy faces major challenges across the board: skyrocketing inflation, a shrinking economy, a plunging stock market, and too few workers. Inflation soared to a 40-year high in June 2022, reaching 9.1 percent.⁵ The Biden administration initially denied that there was even a risk of inflation, then, once it became apparent prices were rapidly rising, pivoted to promises that it would be "temporary" or "transitory."⁶ Since then, the Biden administration has blamed Russia's invasion of Ukraine, oil companies, "corporate greed," and small business owners running local gas stations.⁷



RISING INFLATION HAS HAD A SERIOUS IMPACT ON ECONOMIC GROWTH.

Rising inflation has had a serious impact on economic growth. The American economy shrank in the first half of 2022, with GDP declining by 1.6 percent in the first quarter and 0.9 percent of the second quarter.⁸ Faced with this shrinking economy, the Biden administration has attempted to simply redefine the word "recession," a strategy that harkens back to the administration's initial denials of an inflation crisis.⁹

The current recession has wiped out trillions of dollars in American workers' retirement savings.¹⁰ All of the major stock market indices—including the S&P 500, NASDAQ, Dow Jones Industrial

Average, Russell 2000, and the New York Stock Exchange composite—have seen massive, double-digit declines in 2022.¹¹⁻¹⁵ Americans have lost more than \$7 trillion in wealth from S&P 500 companies alone this year.¹⁶⁻¹⁷

Despite these economic troubles, President Biden and congressional Democrats have put forward a plan that would make these problems even worse. The so-called “Inflation Reduction Act” would increase inflation, appropriate billions of dollars in new federal spending, hike taxes on the middle class, and shrink the economy even further.

The “Inflation Reduction Act” would increase inflation, not reduce it

Despite its name, the “Inflation Reduction Act” would do nothing to tame the inflation crisis and would instead make inflation even worse. The Wharton School of Business, for example, estimates that the plan would have no statistically significant effect on reducing inflation, now or in the future.¹⁸ In fact, the legislation would actually increase inflation over the next two years as new spending measures go into effect.¹⁹ Indeed, the combination of frontloaded spending hikes and higher taxes in the legislation would undoubtedly result in higher prices for consumers.

Worse yet, the legislation has provisions that would directly hurt Americans’ wallets in the most critical areas. President Biden’s regulatory war on American energy has already added fuel to the inflation fire, with Americans paying the price for those regulatory actions at the gas pump and on their electric bills.²⁰ Gas prices have skyrocketed by nearly 90 percent since President Biden took office, even after falling from record highs in June 2022.²¹



GAS PRICES HAVE SKYROCKETED BY NEARLY 90 PERCENT SINCE PRESIDENT BIDEN TOOK OFFICE.

But the “Inflation Reduction Act” would make matters even worse, increasing royalties for both offshore and onshore drilling activities in the name of curbing climate change.²² Similarly, the legislation imposes billions of dollars in additional taxes on crude oil, implements new taxes that would hike consumers’ natural gas bills, doubles taxes on coal, and subjects energy companies to some of the highest taxes of any businesses in the nation.²³⁻²⁵ Unfortunately, these costs will inevitably be passed along to consumers in the form of higher gas prices and higher utility bills.²⁶

The proposal also does nothing to address or even acknowledge Congress and the Biden administration’s recent spending in other areas. In July 2022, for example, Congress passed the \$280 billion CHIPS and Science Act, which included billions of dollars in subsidies and research.²⁷ Congress is also poised to pass the \$280 billion PACT Act to address health care benefits for certain veterans.²⁸ And extending the student loan payment pause is also on the administration’s radar, yet another multi-billion-dollar expense.²⁹ These recent spending policies more than offset the promised deficit reduction measures, even if those savings were not based on budget gimmicks—which they are.³⁰⁻³²

The “Inflation Reduction Act” is nothing more than a thinly veiled attempt to pass pet priorities ahead of the midterm elections under the guise of reducing inflation. In reality, it is reckless congressional spending and raises costs for consumers.

The “Inflation Reduction Act” would increase reckless spending

Under the “Inflation Reduction Act,” hundreds of billions of dollars in reckless new spending would be dedicated to wish list items ahead of the midterm elections. This includes \$385 billion towards “green” energy subsidies and credits, \$65 billion to expand wasteful ObamaCare subsidies for an additional three years, and \$35 billion for an expansion of Medicare, among other measures.³³⁻³⁵

Several of these items are part of the Biden administration’s long-term goal to dramatically increase the size, scope, and cost of the federal government. For example, the expansion of ObamaCare subsidies has already driven-up premiums, crowded out employer health coverage, increased inflation, and been geared towards the financially well-off over the most vulnerable.³⁶ The long-term goal is not to just expand these subsidies for three years under the “Inflation Reduction Act,” but to make them permanent.³⁷ The Congressional Budget Office predicts that permanently extending the expanded ObamaCare subsidies would increase the federal deficit by \$250 billion over the next decade.³⁸



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The legislation would also dedicate roughly \$80 billion to the Internal Revenue Service (IRS) for hiring more auditors and increasing tax enforcement.³⁹ Under the plan, the IRS would spend nearly 70 percent more over the next decade on tax enforcement.⁴⁰ Giving more manpower to the IRS to go after Americans is the last thing taxpayers need when faced with a rising cost of living and a struggling economy. This will only serve to excuse further tax-and-spend programs by Congress.

Unsurprisingly, the negative effects of this reckless spending on the economy will be clear and harsh: The Tax Foundation estimates that, if the legislation is passed, both long-run GDP and wages would decline, while 30,000 full-time jobs would be lost.⁴¹



THE LEGISLATION WOULD ALSO DEDICATE ROUGHLY \$80 BILLION TO THE IRS FOR HIRING MORE AUDITORS AND INCREASING TAX ENFORCEMENT.

The “Inflation Reduction Act” would hike taxes on Americans, especially the working and middle classes

In addition to a weaker economy, Americans across all income groups will face higher taxes. This proposal would break President Biden’s campaign promise not to raise taxes on individuals earning less than \$400,000.⁴²

Next year alone, the effects of the legislation will raise taxes on every single income category, including those earning less than \$10,000 per year.⁴³ In fact, those earning less than \$10,000 per year will face a higher tax hike than millionaires under the legislation.⁴⁴ The proposal would hike taxes on Americans earning less than \$200,000 per year by a whopping more than \$16.5 billion next year alone.⁴⁵ By the end of the decade, roughly half of the new taxes raised by the plan would come from families earning less than \$200,000.⁴⁶⁻⁴⁷

In total, the “Inflation Reduction Act” will increase taxes and tax collections by roughly \$470 billion.⁴⁸ In addition to the increased size and scope of the IRS and higher fees on gas and oil, the legislation would impose a 15 percent minimum corporate tax rate.⁴⁹ Undoubtedly, these increases would eventually be passed along to American consumers in the form of higher prices.



**IN TOTAL, THE “INFLATION REDUCTION ACT”
WILL INCREASE TAXES AND TAX COLLECTIONS
BY ROUGHLY \$470 BILLION.**

Ironically, the same manufacturers Congress recently voted to subsidize via the CHIPS and Science Act will face some of the highest tax consequences of the proposed “Inflation Reduction Act.” Half of the entire burden of the new minimum corporate tax would fall on manufacturers—including computer chip manufactures, far higher than any other industry.⁵⁰

Unfortunately, the higher prices Americans face will only be worsened by higher taxes under the “Inflation Reduction Act.”

THE BOTTOM LINE: Congress should reject the so-called “Inflation Reduction Act”

Instead of continuing down the path of reckless spending and higher taxes that will raise costs for Americans rather than taming inflation, Congress should take meaningful steps to actually get its fiscal house in order. For example, Congress should allow the expanded ObamaCare subsidies to expire on time, which are currently costing billions of dollars each year in deficit spending.⁵¹

Congress should also consider adopting the REINS Act to curtail costly federal regulations that impose unnecessary restrictions on the American economy and drive up both federal spending and costs for businesses and consumers.⁵²

Americans do not need budget gimmicks, higher taxes, and more spending. Instead, they need Congress to exercise fiscal discipline and avoid making life more costly for consumers.

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15275 Collier Boulevard | Suite 201-279
Naples, Florida 34119
(239) 244-8808

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