The Inflation Reduction Act Will Make the Tax System Fairer and Strengthen the Economy

The Inflation Reduction Act will close tax loopholes and increase enforcement to ensure that big corporations and the wealthy pay what they owe. At the same time, it will deliver tax breaks to lower- and middle-income households to reduce household energy and health care costs for millions of Americans.

The bill includes three major tax reforms: instituting a corporate minimum tax on the book income of highly profitable corporations, adding a 1% tax on corporations when they buy back their own stock and investing $80 billion in the IRS over the next 10 years to increase tax enforcement. These reforms will fight inflation, make the tax system fairer, generate revenue and reduce the budget deficit without raising taxes on middle- or lower-income workers and families.

The Inflation Reduction Act will close loopholes and make corporations pay their fair share

The Inflation Reduction Act will improve tax fairness and help ensure the wealthiest individuals and corporations pay what they owe. Analysis from the Tax Policy Center shows that the additional tax burden from the legislation will mostly fall on the top 1% of taxpayers. The bill will institute a 15% minimum tax on the profits that the most profitable corporations report to shareholders. This will only affect U.S. corporations with over $1 billion in average profits (and foreign corporations with over $100 million in average profits) over the previous three years and will close loopholes that let 55 of the largest corporations pay no corporate income tax in 2020.

The bill also creates a new 1% excise tax on corporations when they buy back their own stock in order to inflate the value of the remaining shares. Stock buybacks primarily benefit short-term investors who sell their stock after the price rises, and the practice leads to lower worker pay and limits productive investments—both of which are a drag on overall economic growth that also leave average workers worse off. Short-term investors are overwhelmingly wealthy, such that stock buybacks effectively transfer wealth from everyday workers to the exclusive benefit of those at the top. This excise tax will narrow the preferential tax treatment of stock buybacks over dividends. Both are means to transfer profits to shareholders, but they are taxed differently. Currently, shareholders pay taxes only on dividends in the year they receive them, but they can often avoid ever paying taxes on stock buybacks.

The bill will also invest $80 billion in the IRS go after wealthy tax cheats and close the tax gap. In 2019, tax avoidance and evasion cost the U.S. government $554 billion. The top 1% alone accounted for 28%, or more than $160 billion, of the unpaid taxes that year. This $160 billion by itself would have been enough to pay for the Child Tax Credit in 2021.

Millions of working families will get tax breaks to pay for health care and reduce energy costs

At the same time, the Inflation Reduction Act offers a range of savings and tax credits for lower- and middle-income Americans. The bill provides tax credits and rebates that will reduce a household's spending on energy by more than $300 per year on average. Many Americans will be eligible for consumer rebates that will subsidize the installation of more efficient home energy sources such as heat pumps and solar panels and the purchase of new or used electric vehicles.

The bill will reduce or eliminate health insurance premiums for nearly 13 million low- and middle-income Americans who receive their insurance through the Affordable Care Act (ACA) by extending the enhanced premium tax credits for three years, through 2025. These enhanced credits have helped 5.8 million Americans newly enroll in free or affordable health plans since President Biden entered office and have contributed to the lowest uninsured rate in history. Recipients of the enhanced credits saved an average of $800 in 2021.

Ensuring big corporations pay taxes won't hurt economic growth or investment

Economic data and research clearly show that ensuring the wealthy and corporations pay taxes like U.S. workers do is consistent with strong economic growth. Republicans say that making the wealthy and corporations pay more will hurt growth by removing the incentives for work capital investment, but the evidence doesn't support this. Labor supply, savings and investment have been shown to be "relatively insensitive to tax rates." Investors look for the highest return, and economic growth is not affected by increased taxes on capital.

Studies have not found any evidence of a negative impact on economic growth from higher corporate tax rates. While some argue that corporations pass along tax increases to their workers in the form of lower wages, efforts to prove that workers bear most of the burden of corporate taxation have failed. Past attempts to cut taxes on capital have also failed to produce investment or wage growth.

Increased IRS enforcement will help catch tax cheats and make sure the wealthy pay what they owe

The Inflation Reduction Act invests $80 billion in tax administration, which is critical to enforcing existing tax laws and will help ensure that those who use tax loopholes and other sophisticated tools to hide their income pay what they actually owe. While most hardworking Americans earn their income through wages or salaries, which are easily reported and ensure near universal compliance, many wealth taxpayers and corporations are able to conceal their income from the IRS and avoid paying their full taxes. By investing in tax compliance efforts, the bill will help make our nation's tax system fairer.

The bill's tax administration funding will help address long-term IRS budget issues and subsequent reduced enforcement that have helped create a two-tiered tax system: one that benefits the wealthiest Americans and one for everybody else. Over the last decade, the IRS's overall budget has declined by 20%, while the number of IRS staff is down by 23%, or more than 22,000 employees, over the same period. The last time the IRS had so few auditors was in the mid-1950s, when the U.S. population was half the size it is today. At the same time, the IRS has taken on more responsibilities, particularly over the last two years with the distribution of stimulus checks and advance child tax credit payments. As a result of continued disinvestment, the audit rate for individuals making over $1 million per year has fallen by 71% over the last decade.

Additional enforcement resulting from the *Inflation Reduction Act* will be focused on pursuing only those with income greater than $400,000. Cracking down on tax avoidance does not increase the amount any individual or company owes but rather increases the amount actually paid. This increases the revenue that can be used to invest in workers and families and reduce the deficit.

CBO estimates that every dollar invested in tax enforcement over the next decade will generate on average $2.27 in revenue. Investing in the IRS will also enable the agency to hire additional staff, make needed technology upgrades and provide better customer service and quicker refunds to all taxpayers.

Reducing the deficit will fight inflation

The Inflation Reduction Act's tax provisions raise significant revenue that will reduce the deficit by $238 billion over the next decade, according to CBO. The Committee for a Responsible Federal Budget estimates that it will reduce the deficit by $1 trillion over two decades. Deficit reduction, in the form of higher taxes on only the highest-income earners and most profitable corporations, combined with lower government spending, will decrease inflation.

A bipartisan group of 126 leading economists, including Nobel Laureates and former Treasury secretaries, Federal Reserve vice chairs and Council of Economic Advisors chairs, all agree that by reducing the deficit, the Inflation Reduction Act will place downward pressure on inflation. The non-partisan Committee for a Responsible Federal Budget and Moody's Analytics also conclude that the bill will reduce inflationary pressure.