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Senate negotiations on a slimmed-down “Build Back Better,” which the House passed in November, have led to agreement on enhanced Affordable Care Act subsidies and changes to the pricing of prescription drugs. The June CPI report, however, put the brakes on the inclusion of renewable energy and tax provisions, likely taking these items off the table for at least the next two years.

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BBB TAX INCREASES OFF THE TABLE FOR THE TIME BEING

Senators Schumer and Manchin had been negotiating on a slimmed-down version of Build Back Better, the legislation that the House passed in November, focused on tax increases, climate spending, Medicare prescription drug price negotiation, and extension of enhanced Affordable Care Act (ACA) subsidies. However, following the release of the June Consumer Price Index (CPI) report, Senator Manchin (the key vote for Democrats) expressed his opposition to raising taxes on small businesses in a slowing economy with inflation still elevated. Manchin’s opposition to tax increases also removed the climate spending that those taxes were meant to fund. Thus, Build Back Better shrank even further to include only health care items like ACA subsidies and changing the structure of Medicare drug prices. **Importantly for investors, this slimmed-down version of Build Back Better takes tax increases off the table through at least 2024, with Republicans, who are opposed to any new tax increases, likely to take control of Congress next year.**

Companies will now have short-to-intermediate term visibility on their corporate tax rate for both US income and income earned overseas. Failure to act on taxing US multinationals also makes it more difficult to get a global minimum tax deal. **Finally, investors can count on not seeing an increase in individual income, capital gains, dividends, and estate taxes.**

Renewable energy spend is off the table unless there is a bipartisan deal including fossil fuels. Manchin has specifically said that he is not opposed to the renewable energy provisions, he just opposes the tax increases to pay for the spending. Without tax increases, it is unlikely that long-term incentives will be in place for renewable energy. Thus, renewable energy tax credits can only really move forward if there is a post-election bipartisan deal including fossil fuels. President Biden has vowed to move by executive action on climate change in light of congressional failure, but the reality is kicking in that a long-term climate funding package is not possible.

Reconciliation now includes Medicare drug price negotiation and enhanced ACA subsidies. Facing a September 30 deadline, President Biden has asked Congress to take the win and pass a healthcare-only bill with two key features: Extension of expiring health insurance subsidies paid for with a cram down on drug prices in Medicare. Without an extension of those subsidies, more than 10 million Americans are facing a large increase in their premiums for 2023. Drug price changes would be the method to pay for the increase in subsidies, but these changes could significantly alter the drug pricing structure within Medicare over time, leading to a lower return on pharmaceutical research and development. Congress will try to pass these wide-ranging changes before the August recess, which puts the measure on a tight timeline. We would also expect that interested parties will lobby to alter the provisions to their benefit.



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