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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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As the Senate plows ahead on the Inflation Reduction Act of 2022 (aka IRA or the reconciliation bill), some Democrats are pushing to change the bill. In the end, their efforts will probably have only limited success and the legislation is likely to pass mostly as is. Senator Sinema's support is probably the greatest risk to the bill, but this note explains why she is likely (not definitely, but likely) to vote for it.

The Senate could soon start debate of the IRA bill, the contents of which we described last week. The bill is still expected to pass, but the exact timing and the pathway forward are unclear.

Regarding timing, the only deadline that really matters is September 30, the date when the Budget Resolution, which allows the Senate to consider the bill under reconciliation rules, expires. All other deadlines are self-imposed and fluid.

The bill is currently undergoing a "Byrd bath," which is a series of negotiations and talks with the Senate Parliamentarian, who is the referee in determining whether provisions in the bill comply with the complex reconciliation rules. In order to qualify for reconciliation's expedited procedures, the bill's contents must be primarily about impacting the budget deficit. Sections of the bill, whose budgetary impacts are "merely incidental" to the overall policy proposal, are subject to being dropped from the bill.

While the Byrd bath takes place, Democratic senators are also negotiating possible changes to the bill. Senator Kyrsten Sinema (D-Arizona) is seeking changes to the carried interest proposal, wants additional funding in the climate section for drought resiliency, and reportedly is seeking unspecified changes in the corporate alternative minimum tax proposal. Senator Sinema had negotiated a corporate AMT in a 2021 version of Build Back Better (BBB), so it is unclear what changes she is currently seeking, but the corporate AMT proposal has been criticized by business groups in Arizona, which might put pressure on Sinema.

On the other side of the Democratic Party, Senator Bernie Sanders (I-Vermont) is pushing to add more money to the climate change section and parts of BBB that were previously dropped. Senator Sanders could offer amendments to the bill that could put some Democrats in an awkward position. Would they vote for amendments they have long supported and are important to the Democratic base, or would they vote against them knowing that the Sanders amendment could drive away Senators Manchin and Sinema (as well as Democrats who are running for reelection and fear their vote could be used against them in the general election)? Chances are the Sanders amendments (and similar amendments from other progressives) will fail because they ultimately become poison pills that would doom the IRA. Democrats want a win, and odds are they will do whatever is needed to make sure the bill passes including rejecting amendments that are popular among the Democratic base.

The bigger risk for Democrats is Senator Sinema. She was not included in the talks between Senators Joe Manchin (D-West Virginia) and Chuck Schumer (D-New York) which could alienate her. As noted above she is seeking some changes, but it is questionable whether those changes are deal breakers. Accommodating her (and other western senators) on drought-related funding should be easy enough. Some modifications could be made to the corporate AMT section, and it is tough to see carried interest as a deal breaker for either side. Perhaps Senator Sinema succeeds in dropping that proposal, but either way, the fate of the IRA is unlikely to depend on carried interest. In the end, it is hard to see how Senator Sinema votes against the IRA. Acknowledging that she is unpredictable, the bill, with some modest changes, is likely to pass the Senate in the coming weeks.

The House would also vote on the bill if it passes the Senate. Some northeast Democrats have previously threatened to vote against a reconciliation bill that does not raise the current \$10,000 cap on the deductibility of state and local taxes (SALT). Similar to the situation with Senator Sinema, it is tough to see this as a deal breaker. The northeasterners are unlikely to get SALT relief now, but there could be an accommodation like there was with Senator Manchin for a future vote. Whereas Manchin received a promise to deal with energy permitting in a future bill, Democratic leaders could offer to vote on SALT relief in the tax extenders bill or a year-end spending bill, which should be enough to keep the northeasterners on board.

There are lots of headlines about various Democrats pushing for changes in the IRA bill. There might be some modest changes, but chances favor the bill passing in a form substantially similar to the current version.

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