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A scaled down USICA/CHIPS Act is moving forward in the Senate but still faces a few hurdles. Odds are in the bill's favor, but it's no slam dunk that the bill will be signed into law. The bill is moving forward because the tax section of Build Back Better was dropped. So, no tax hikes for 2022, but there could be a year-end tax bill that includes some tweaks to current tax laws. Key House members are also negotiating a bill to regulate stablecoins. It is unlikely that the bill will become law in 2022, but moving the bill through at least part of the legislative process could help pave the way forward for a bill in 2023 or 2024.

CHIPS Act Lite

With the reconciliation bill (formerly known as Build Back Better or BBB) scaled back to a prescription drug price regulation section and a two-year extension of Obamacare premium subsidies, the door has reopened to consider some form of the CHIPS Act that would provide subsidies for building new domestic chip fabrication facilities. The CHIPS Act was originally included in a broader United States Innovation and Competition Act (USICA) that had bipartisan support. However, Senate Republicans withdrew their support when it looked like Democrats might push through a reconciliation that also included tax hikes and a climate section. With the tax and climate sections dropped and the reconciliation bill reduced to just the prescription drug and Obamacare subsidies, Republicans have agreed to reengage on some form of CHIPS.

Given the late date, it is probably not possible for Congress to finish work on a broader USICA, so some sections such as vetting outbound investments in China and tariff overhauls are likely to be dropped, and Congress will likely coalesce around the CHIPS Act with some additional add-ons. On Tuesday, the bill cleared an early procedural hurdle which signaled enough GOP support to pass the bill, but there are still some potential pitfalls ahead. Although the Senate is working on a slimmed down CHIPS Act, there are still potential obstacles to getting the bill passed. First, senators could try to attach various amendments that could upset bipartisan support for the bill. Second, while the bill enjoys bipartisan support, there is also bipartisan opposition to providing subsidies to profitable private businesses. Third, there may be some type of split within the semiconductor industry as some firms fear the bill could advantage some of the bigger players more than other industry participants. Intra-industry squabbles can sink legislation. Finally, all of the legislative action is in the Senate, and House members might resent being given a "take it or leave it" bill from the Senate, although Speaker Nancy Pelosi's backing of the bill mitigates this risk.

Odds favor a slimmed down CHIPS Act becoming law, but getting a bill to the President's desk is not a slam dunk.

Tax Extenders – R&D Expensing and the Business Interest Deduction

One of the biggest implications from the apparent discarding of tax legislation within the reconciliation bill is that tax hikes are likely off the table for the remainder of the year. That does not mean, however, that there will not be any tax bill this year. An annual tax extenders bill will probably be considered during a lame duck session of Congress. The tax extenders bill is a collection of provisions in the tax code that expire every year and must be renewed in order to continue.

This year's tax extenders bill could also be a vehicle to modify parts of the Tax Cuts and Jobs Act of 2017 (the Trump tax cuts). The Trump tax cut converted expensing of research and developments costs to a five-year deduction effective in 2022. Congress might

suspend the new law as part of the tax extenders bill. The Trump tax cut also limited the deductibility of business's interest expenses to 30 percent of EBITDA. Starting in 2023, the cap will be further reduced to 30 percent of EBIT and there has been some talk of suspending this change as well.

There are questions as to whether Democrats would support easing corporate tax rules after losing out on increasing corporate income tax rates and key Democratic priorities such as expanding the Child Tax Credit, but there seems to be some bipartisan support for suspending these changes in corporate tax rules.

Cryptocurrency Legislation – Only Baby Steps in 2022

The Chairman of the House Financial Services Committee, Representative Maxine Waters (D-California), and the committee's top Republican, Representative Patrick McHenry (R-North Carolina) have been working on a cryptocurrency bill and may be near an agreement on a bill to regulate stablecoins. It appears that the bill would give more authority to the Federal Reserve Board to regulate issuers of stablecoins. The bill might also restrict nonfinancial companies from issuing stablecoins. Assuming the two lawmakers reach an agreement, the bill is still a far distance from becoming law. The committee could vote on a bill, but it is not clear whether the full House would vote on the bill in 2022. Even if the bill were to pass the House, it is highly unlikely that the Senate would vote on it this year.

Despite the long odds of enacting a bill this year, passing a bill through the committee is notable since it could help clarify some issues for a debate on crypto legislation in 2023.

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