

July 29, 2022

WASHINGTON POLICY STRATEGY

Potomac Perspective

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com



Senator Manchin surprised most of Washington by announcing a deal on a reconciliation bill that is broader than what was previously expected. The bill includes a corporate alternative minimum tax, changes in carried interest rules, but no changes in the state and local tax (SALT) deduction which leads to questions about the bill's viability. The announcement of a revised reconciliation bill could have made passing the CHIPS Act through the House more difficult, but that bill passed the House on Thursday and will be signed into law in the near future.

Wednesday was a chaotic day in Washington, as the Senate passed a China competition bill with Republican support which was based on the belief that a broad reconciliation bill was dead. After the vote, key Democrats announced an agreement on the reconciliation bill. Contrary to some expectations, the announcement of the reconciliation bill did not prevent the CHIPS Act from passing the House.

Build Back Manchin

After Wednesday's close, Senator Joe Manchin (D-West Virginia) announced that he had reached an agreement with Senate Majority Leader Chuck Schumer (D-New York) to vote on a bill that he is calling the "Inflation Reduction Act of 2022." Previously, Sen. Manchin had indicated that he would vote for a bill that was limited to Medicare prescription drug price controls and an extension of subsidies of premiums for Obamacare policies. The newly announced deal also includes tax and climate provisions. [Click here](#) to access the bill's text.

Among the key takeaways are the following:

- A 15% minimum tax on companies with revenues over \$1 billion (corporate AMT);
- Carried interest changes;
- No changes to the SALT deduction;
- No changes to retirement savings rules or estate taxes which were included in the 2021 version of the bill;
- No language to implement a global minimum tax which Treasury had negotiated with OECD countries;
- Authorization for Medicare to negotiate drug prices;
- Extension of premium subsidies for Obamacare policies; and
- Climate-related provisions including tax credits and incentives

In a separate statement, Sen. Manchin indicated that the White House and congressional leaders had agreed to future votes on streamlining energy permitting processes.

The tax section is fairly straightforward, but a corporate AMT could create problems for tax credits since utilization of tax credits helps some companies lower their tax rate. A corporate AMT could disincentivize use of tax credits by corporations.

Among the potential political stumbling blocks that jump out from Sen. Manchin's statement are the carried interest and SALT provisions. It appears that Senator Kyrsten Sinema (D-Arizona) opposed changes in carried interest rules that were included in similar legislation last year and had those sections removed from the 2021 bill. It is unknown if this is a deal breaker for her. A lot of the bill reflects concessions she negotiated in 2021, so she might be inclined to support the bill, but opposition by Sen. Sinema could be enough to block the bill in the Senate. Also, a group of House Democrats from high-tax states have repeatedly said "no SALT; no deal." In other words, if the \$10,000 cap on the state and local tax deduction is not raised, they would vote against a reconciliation bill. Given Democrats' narrow margin in the House and universal Republican opposition to this bill, this group could tank the bill in the House if they follow through on their threat.

Another potential challenge for Senate Democrats is maintaining 50 votes in the Senate. Senator Patrick Leahy (D-Vermont) recently underwent hip replacement surgery, and his availability for votes is unclear. Furthermore, Democrats are just one COVID case away from lacking a 50th vote. They have no room for error.

Procedurally, the Senate Parliamentarian will review the bill to make sure it complies with reconciliation rules. Senate Democratic leaders hope to vote on the bill next week. If the bill passes the Senate, the House will probably vote on it in late August when it returns to vote on the CHIPS Act.

CHIPS Act Passes Congress

Earlier on Wednesday, the Senate passed the CHIPS Act which provides subsidies for domestic semiconductor fabrication facilities. Senate Republicans who voted for the bill did so on the belief that the reconciliation bill would be limited to the Medicare drug price and Obamacare premium sections. There was some belief that House Republicans who had supported the CHIPS Act prior to this week might change their minds following the turn of the events in the Senate. However, only a handful of Republicans did so thus the bill passed the House more easily than expected. The bill now goes to the White House for President Biden's signature.

Subscribe To Our Podcast!

We recently created a Potomac Perspective podcast. To access a broader discussion of these and other topics, listen and download the latest episode of our [Potomac Perspective podcast](#).

DISCLAIMER

This material is for informational purposes only and is not an offer or solicitation to purchase or sell any security or instrument or to participate in any trading strategy discussed herein. The information contained is taken from sources believed to be reliable, but is not guaranteed by Stifel as to accuracy or completeness. The opinions expressed are those of the Washington Policy Strategy Group and may differ from those of other departments that produce similar material and are current as of the date of this publication and are subject to change without notice. Past performance is not necessarily a guide to future performance. Stifel does not provide accounting, tax or legal advice and clients are advised to consult with their accounting, tax or legal advisors prior to making any investment decision. Additional Information Available Upon Request. Stifel, Nicolaus & Company, Incorporated is a broker-dealer registered with the United States Securities and Exchange Commission and is a member FINRA, NYSE & SIPC. © 2022

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

0722.4877933.1