



The Inflation Reduction Act: What It Means for You

On August 16, President Biden signed into law the Inflation Reduction Act, sweeping legislation designed to promote clean energy, lower health care costs, and reduce the deficit. The bill contains many different provisions, some of which directly benefit consumers.

The legislation represents the largest effort to address climate change in U.S. history.

After months of gridlock, Senate Democrats finally agreed on a bill that addresses many of the issues they had campaigned on two years earlier. The Inflation Reduction Act (IRA) -- a slimmed-down version of the originally proposed Build Back Better bill -- contains major initiatives to fight climate change and incentivize clean energy use. It also includes provisions that address prescription drug pricing reform, health insurance costs, and a host of other items.

Much of the Act is focused on structural and institutional changes that will have only an indirect impact on consumers over time. But there are some provisions that will affect many Americans directly:

Medicare Prescription Drug Pricing. The Act allows Medicare to negotiate cheaper prescription drug prices for certain medications, and it caps out-of-pocket prescription costs for Medicare Part D beneficiaries at \$2,000 per year starting in 2025. It also requires drug companies to pay a rebate to Medicare if they raise prices for Medicare recipients faster than the rate of inflation. Insulin receives special attention, with out-of-pocket costs capped at \$35 per month for insulin copays under Medicare Part D programs.

Health Insurance Costs. A premium tax credit established under the Affordable Care Act helps eligible individuals and families cover the premiums for health insurance purchased through health insurance marketplaces. The IRA extends certain credit enhancements made in response to the COVID-19 pandemic through 2025.

Electric Vehicle Tax Credits. The Act extends and modifies the tax credit for electric vehicle (EV) purchases, up to \$7,500 for new vehicles and up to \$4,000 for used vehicles. But the credit comes with many caveats. It has both income and vehicle price limits -- i.e., it is not available to high earners or for expensive cars. Even more restrictive are the requirements that a certain percentage of the vehicle and battery must be manufactured in North America -- which is not the case for many of today's EVs.

Green Improvements and Appliances. The Act reinstates an expired tax credit for energy-efficient home improvements for 2022 and makes it more generous starting

next year. The changes will allow homeowners who install qualifying energy-efficient improvements to claim 30% of the total cost, up to a maximum credit of \$1,200 a year through 2032. The Act also calls for future rebate programs that incentivize households to replace old appliances with new energy-efficient ones. These include items such as water heaters, stoves, and dryers. Precise rebate amounts will vary based on an individual's income.

Solar Panels and Energy Storage. The Act increases and extends existing tax credits for rooftop solar installations, and adds battery storage as well. Homeowners can get a tax credit of up to 30% of the cost of home solar, retroactive to the beginning of 2022 and running through 2032, when the credit tapers off through 2034. The same incentive applies to storage batteries that increasingly are paired with home solar systems.

Who's Footing the Bill

The \$437 billion bill is being funded primarily by taxes on corporations with more than \$1 billion in income, which will be subject to a 15% minimum tax. The Act also imposes a 1% excise tax on stock buybacks, reinstates the Superfund tax on petroleum and oil, and beefs up funding for tax collection activities by the Internal Revenue Service. These actions are collectively projected to reduce the deficit by \$300 billion over the next decade.

How much of an impact the Act will have on inflation remains to be seen. Many programs will take time to implement, so any effects on prices and the economy are likely to be a ways down the road. But over time, the legislation promises to have a profound impact on consumers and the transition to cleaner energy.