MYTH VS FACT: TAX TITLE OF THE "INFLATION REDUCTION ACT OF 2022"

Democrats claim the latest version of their tax-and-spend bill, the mislabeled "Inflation Reduction Act of 2022," will ensure the wealthiest Americans and corporations pay their "fair share" by closing tax loopholes and boosting IRS funding, all without raising taxes on anyone making less than $400,000 per year. However, analyses from nonpartisan experts show the legislation would raise taxes on low- and middle-income Americans during a period of declining GDP and high inflation; raise taxes on manufacturers, exacerbating supply-chain disruptions, and costing U.S. jobs and investment; and do little to nothing to lower inflation.

"The more this bill is analyzed by impartial experts, the more we can see Democrats are trying to sell the American people a bill of goods," said U.S. Senate Finance Committee Ranking Member Mike Crapo. "Non-partisan analysts are confirming this bill raises taxes on the middle class, raises taxes on manufacturers, and produces no meaningful deficit reduction when gimmicks are removed and the full cost is accounted for."

IRS FUNDING

MYTH: Increasing IRS funding by $80 billion will provide the agency with the resources it needs to go after wealthy tax cheats and corporations who don't pay their fair share in taxes, generating more than $124 billion in additional revenue to go toward deficit reduction.

FACT: According to the nonpartisan Joint Committee on Taxation (JCT), the brunt of any new revenue from hiring an army of IRS auditors will overwhelming hit low- and middle-income earners, people already struggling with high gas prices and 9.1 percent inflation. CBO scores the $80 billion for mandatory IRS funding as *spending only*, and gives phantom credit for potential enforcement revenue that might be generated in "future baselines."

Background:

IRS funding breakdown—$80 billion in mandatory appropriations to the IRS:

- **$45.6 billion for enforcement purposes**
- $25.3 billion for operations support
- $4.8 billion for business systems modernization
- $3.2 billion for taxpayer services

How will the $45.6 billion for enforcement purposes be used to address the noncompliance tax gap?

According to the nonpartisan Joint Committee on Taxation, misreported trade or business activities (**Schedule C** items) or other income-producing activities (**Schedule E** items) make up a **very significant** portion of the overall noncompliance "tax gap."

IRS data reproduced in the table below show that Schedule C or E tax enforcement assessments **predominantly** hit taxpayers who **have low (or very low) Adjusted Gross Income (AGI)**, and nothing in the proposal would change that fact**.**

Based upon these data, out of all the revenue projected to be raised from underreported income:

- **40-57** percent could come from taxpayers making **$50,000 or less;**
- **65-78** percent from those making less than **$100,000; and,**
- **78-90** percent from those making less than **$200,000.**
- Only around **4-9** percent could come from those making **$500,000 or more.**

Percentage of Estimated Tax Assessments Relating to the Underreporting of…		
Reported AGI	**Schedule C Income**	**Schedule E Income**
Less than $0	5%	6%
$0 - $50,000	52%	34%
$50,000 - $100,000	21%	25%
$100,000 - $200,000	12%	13%
$200,000 - $500,000	6%	14%
$500,000 and over	4%	9%
Total	100%	100%

Referring to all tax gap and misreporting numbers as arising from "tax cheats" is misdirection, as significant amounts arise from hard-working taxpayers simply struggling to comply with an overly complex tax code, which will become even more complex if the latest tax-and-spend bill becomes law.

BOOK MINIMUM TAX

MYTH: The book minimum tax (BMT) does not raise taxes; it closes loopholes by making large companies pay at least a 15 percent minimum tax.

FACT: The BMT is a $313 billion tax increase, with half of the increase falling on manufacturers, according to the nonpartisan Joint Committee on Taxation. Despite proponents' claims, the book minimum tax does not close tax loopholes. The BMT is calculated based on financial statement ("book") income, which is a different set of rules established for an entirely different purpose than taxable income.

Claims that the BMT closes loopholes ignore the fact that the provisions resulting in different book and tax treatment were specifically enacted by Congress for sound policy reasons. For example, the treatment of capital investments differs for book and tax purposes, in part to encourage companies to invest in capital assets in the United States. As the left-leaning Tax Policy Center acknowledges, the BMT would discourage investment.

According to a study by the National Association of Manufacturers, in 2023 alone the effects would include:

- A real GDP reduction of $68.45 billion
- 218,108 fewer workers in the overall economy
- A labor-income decrease of $17.11 billion

Further, the BMT will not prevent large companies from paying zero tax. The energy tax provisions included in the "Inflation Reduction Act of 2022" would permit companies to receive those tax credits in excess of their tax liability.

In other words, not only will companies in Democrat-favored industries be able to pay zero tax, some will even be able to receive taxpayer-funded subsidies in excess of tax due for engaging in an activity that has been picked for government handouts.

Background:

The book minimum tax is calculated based on book income, or the income reported by companies on their financial statements. Companies calculate their tax liability based on the tax accounting rules set forth in the Internal Revenue Code. While book accounting is typically based on Generally Accepted Accounting Principles (GAAP), there is no globally uniform financial accounting standard. Further, U.S. accounting rules are set by the **unelected Financial Accounting Standards Board** (FASB), whereas the **Internal Revenue Code is enacted by Congress** per its authority under the Constitution. The book minimum tax unwisely injects tax policy—and politics—into the accounting standard setting process.

A key difference between book accounting and tax accounting is the treatment of companies' investments in capital assets, like machinery and equipment. For book purposes, companies write off the value of their capital assets in line with their decline in economic productivity. For tax purposes, the cost of most capital assets, including machinery and equipment, can be fully deducted. **The book minimum tax would penalize companies that utilize the tax treatment related to these investments, encouraging manufacturers and others to invest elsewhere.**

JCT has confirmed that half of the $313 billion BMT increase would fall on manufacturers, targeting the very capital investments Congress intended to encourage amidst an economy in stagflation. **Despite claims, depreciation is not a tax loophole. This provision is a tax increase—one that falls squarely on domestic manufacturing.**

Contrary to closing loopholes, a book minimum tax would actually pick **new** "winners and losers," as some provisions receive particularly special treatment under the BMT—namely, companies receiving refundable energy tax credits. Not only would those companies not be penalized for paying zero tax as a result of receiving energy tax credits, but they would also receive an adjustment to eliminate the subsidy from income under the BMT, further ensuring they pay no additional tax.

Democrats should take a cue from the past. A previously enacted book minimum tax was allowed to expire in 1989 (after only three years in place) due to the problems outlined above. In other words, **this proposal has been tried before—and it failed.**

TAX HIKES ON FAMILIES MAKING LESS THAN $400,000 PER YEAR

MYTH: There are no new taxes on families making $400,000 or less and no new taxes on small businesses—Democrats are simply focused on "the rich" by closing evasive tax loopholes and enforcing the tax code.

FACT: The JCT estimates the legislation will increase taxes on millions of individuals making less than $400,000 per year.

According to the JCT, the bill would raise a total of $337.8 billion over 10 years from its three revenue-raising provisions:

- Book Minimum Tax: $313.1 billion
- Change to treatment of carried interest: $13 billion
- Reinstatement of Superfund tax: $11.7 billion

The JCT estimates the following tax effects:

- In 2023, taxes will **increase by $16.7 billion on American taxpayers earning less than $200,000—**a nearly **$17 billion tax targeted directly at low- and middle-income earners next year, amidst stagflation.**
  - The $17 billion hit alone is confirmation that the Biden pledge to not raise taxes on anyone earning less than $400,000 is shattered by the latest tax-and-spend bill.
  - The proposal would raise another **$14.1 billion** from taxpayers earning between **$200,000 and $500,000**.
  - According to JCT data, 98 percent of all tax returns filed by those in the $200,000 to $500,000 category are filed by those earning between $200,000 and $400,000, with at least three-fourths of the income in the $200,000 to $500,000 category also coming from those below $400,000. This means it is likely that **at least half of all new tax revenue raised next year would come from those earning under $400,000**.
- Throughout the ten-year window, **the average tax rate for nearly every single income category would increase**.
- By 2031, when the new green energy credits and subsidies provide an even greater benefit to those with higher incomes**, those earning below $400,000 are projected to bear as much as two-thirds of the burden of the additional tax revenue collected that year**.

Background:

As outlined above, the **book minimum tax** is not a loophole closer—it's a direct tax on America's manufacturers and actually creates new "winners and losers" in the tax code.

Significantly changing the **carried interest deduction** increases taxes on private investment, which will increase costs to businesses, eliminate jobs, decrease returns to average Americans who benefit from these investments, and dis-incentivize long-term investment.

Reinstating the **superfund tax** on America's producers would result in higher prices for consumers on things like gasoline, threaten thousands of jobs, and undermine domestic critical mineral development.

Taken together, the JCT estimates the latest version of the full tax title will increase taxes on millions of Americans across every income bracket, with **more than half of the tax increases on Americans making less than $400,000 per year**.

Corporate tax increases get passed on to workers in the form of lower wages and to consumers in the form of higher product prices. Some estimates say up to 50 percent of a corporate tax increase is borne by workers. Other estimates say 31 percent is borne by consumers via price hikes; 38 percent is borne by workers via lower wages; and 31 percent is borne by owners. These owners include individuals with retirement savings, with costs occurring via lower equity valuations, fewer dividends, and reduced opportunities for organic growth through investment.