

Making Sense

Capital Management Group:
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Infrastructure Bill Now may be Linked to the Reconciliation Bill. What's That Mean for Your Taxes?

What just happened?

I've received many questions about the newly agreed upon bipartisan infrastructure bill released on Thursday, June 24, 2021, including the outlook for tax increases on corporate and individual income. There's some confusion because **there were no tax increases** included in the bipartisan agreement. In fact, **tax increases were never expected in a bipartisan bill**, but rather, were likely to come in a reconciliation package later this year. None of the consensus base case items listed below have changed. **What has changed is that President Biden and Democratic leaders appear to be tying passage of a bipartisan infrastructure deal to the successful completion of tax increases in a reconciliation bill.**

Taxes - The consensus base case right now:¹

- 25% corporate tax rate,
- 15-18% Global Intangible Low-Tax Income (GILTI) rate,
- Higher personal income tax rate (39.6% top rate up from 37%), plus a 3.8 percent surtax for Medicare,
- 28% capital gains tax rate, and
- Modest changes to the estate tax in general. (i.e., step-up in basis remains)

Dan Clifton, Senior Policy Analyst from Strategas Research confirmed that **all of the above have a high chance of passing in the final bill.**

More broadly, what happened?

- On Thursday, June 24th, President Biden and a bipartisan group of senators announced that they reached an infrastructure deal on a \$1.2 trillion package over eight years, with \$579 billion in new spending.
- The bill will **nearly double** the amount of annual infrastructure spending.
- The bill **does not contain any tax increases**, but President Biden indicated during the press conference that **he will not sign this bill unless he gets a multitrillion spending plan which will include his proposed tax increases**. Then, in an official White House statement on Saturday, June 26th, President Biden appeared to **walk back his original statement:**²

“At a press conference after announcing the bipartisan agreement, I indicated that I would refuse to sign the infrastructure bill if it was sent to me without my Families Plan and other priorities, including clean energy. **That statement understandably upset some Republicans, who do not see the two plans as linked**; they are hoping to defeat my Families Plan—and do not want their support for the infrastructure plan to be seen as

aiding passage of the Families Plan. **My comments also created the impression that I was issuing a veto threat on the very plan I had just agreed to, which was certainly not my intent.**"

- The **actual passing of this bill will likely be a complicated and politically fraught process** that will take time.
- Progressive **Democrats were opposed to the smaller bipartisan deal**, likely out of fear that passage would reduce the appetite for other spending priorities on social policy and for tax increases. President Biden and senior Democratic leaders are now making passage of any bipartisan infrastructure deal **contingent on moderate Democrats also voting for trillions in new spending and taxes at the same time.**
- There were **some significant differences in the statements made by senior Democratic leaders**, namely:³
 - Senate Majority Leader Chuck Schumer seems to imply he will move an infrastructure deal once a budget passes through Congress.
 - House Speaker Nancy Pelosi said she is not moving the infrastructure portion until a full reconciliation package also passes through Congress.
 - Regardless, Democrats are about to prepare a multitrillion dollar budget in the month of July. For anyone who thought the Administration’s agenda was on ice, it’s about to ramp up in a meaningful way.

What does the bill cover and not cover?

Below is a comparison of both the bipartisan Senate plan vs. the Biden Administration’s proposal. (Figure 1)²

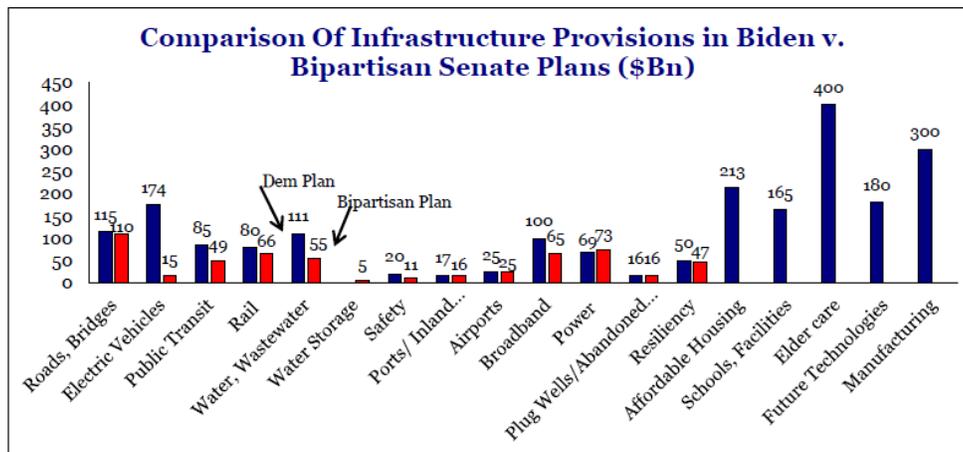


Figure 1

How will the infrastructure bill be paid?

Unsurprisingly, paying for the infrastructure bill will likely prove to be the biggest sticking point in negotiations within Congress. Consensus views are that nearly all of the package will be deficit financed, as well as partial payment through higher taxes, but will also include:

- \$100B net from IRS enforcement (\$40B in new spending)
- \$100B in public private partnerships
- \$80B UI “program integrity” – i.e. expiring UI benefits in September
- \$65B in 5G spectrum sales
- \$60B from dynamic scoring
- \$30B in toll credits
- \$25B in recouped UI ARP supplement
- Extend expiring customs user fees
- Reinstate Superfund fees for chemicals
- Sell oil from the Strategic Petroleum Reserve
- Extend the sequester on mandatory spending

Possible Timeline:

- Bipartisan Group translates deal into legislative text with CBO scoring.
- Some are suggesting the Senate will pass this infrastructure bill in July. However, this is a revenue bill and all revenue bills need to start in the House.
- The House will not move on the infrastructure package.
- House and Senate Democrats will try to agree on a budget in July that sets forth the multitrillion dollar reconciliation window for the remainder of the Biden agenda on taxes and spending.
- Democrats will then use August and September to craft the reconciliation package with the goal of passing the measure in September. If so, the infrastructure deal can also move forward.

¹Strategas Research Partners

²Official White House press release, June 26th, 2021

³Bloomberg

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