What the Inflation Reduction Act of 2022 Means for U.S. Public Finance

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- The general public finance reaction to the Inflation Reduction Act (IRA) of 2022 will be mixed over time. The overall impact will be minimal to the U.S. municipal bond market on the spending and revenue side.
- Concern the IRA's new 15% corporate minimum tax will decrease municipal demand and liquidity is unfounded. We expect the new tax law to only impact a very small number of large companies. Decreased demand from a half-dozen to a dozen buyers will not meaningfully impact the market's ability to function.
- What we are concerned about is what the pool of companies who may see less value in tax-exempt bonds could look like in five, 10 or 20 years as a result of this change, if it is not repealed. If a larger portion of the insurance and financial industry loses incentive to buy tax-exempts then demand will need to be found elsewhere on a much larger scale than what will need to be replaced in the near-term.
- This haphazard policymaking process highlights the importance of educational efforts about the municipal bond tax-exemption. Public finance, government, and industry groups should be re-energized to teach D.C. lawmakers about the effectiveness of municipal bonds. They are an efficient and useful infrastructure financing tool.

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