FROM THE EDITOR: How will Biden's signature bills impact business in Long Beach?

BY HAYLEY MUNGUIA / Editor

As he hit the largely virtual campaign trail last year, then-presidential candidate Joe Biden homed in on an alliterative message to the nation: Under his watch, the U.S. would "build back better" in the wake of the coronavirus pandemic.

Now, his first year in office is drawing to a close, and it appears the Senate may be on the verge of passing his campaign's namesake bill. The House of Representatives adopted the $2 trillion proposal—which would make significant investments in education, health care, efforts to combat climate change and more—in November, and Senate Majority Leader Chuck Schumer (D-N.Y.) said early last week that he hopes to pass the bill by Christmas.

If approved, the Build Back Better Act would follow the Infrastructure Investment and Jobs Act as Biden's second signature piece of legislation. Taken together, the two bills could impact millions of Americans, with different groups reportedly benefiting from the myriad provisions, which include investments in transportation, the power grid and internet access, along with authorizing universal pre-K, offering new aid to low-income families and expanding Medicare coverage, to name a few.

But the bills would also have significant tax implications for wealthier Americans and for corporations. I was curious about what this all could mean for businesses in Long Beach—how local businesses would be impacted, and also how they would benefit. So I reached out to some experts to get a better sense of what Biden's signature packages would mean here.

In terms of the broader question of who will be affected, the simplest answer is: It depends.

"The impact on different businesses is going to depend on the type of industry they are in, their financials, including whether or not they have equity partners, whether they have debt outstanding, what kind of tax deductions they are eligible for and what kind of workforce they are employing," Laura Gonzalez, an associate professor of finance at Cal State Long Beach, told me.

In terms of specific provisions, the one aspect of the infrastructure bill that's likely to have the most impact locally, according to Tax Prose agent and tax coach Stephanie Anderson, is the early termination of the employee retention credit. The credit, which was put into place in the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, encouraged employers to maintain staffing levels by offsetting some of the cost of wages. It was slated to last through the end of the year, but the infrastructure bill moved back the cutoff date to the end of September.

"I would bet that many of our local Long Beach businesses have been surviving the pandemic with the help of the employee retention credit," Anderson told me. "So I think that's going to have a big impact on our local economy here."

The Build Back Better bill, meanwhile, has broader changes in store.

"As far as the infrastructure bill and how it would impact Long Beach, it's mainly going after larger businesses," Anderson said. "The Build Back Better bill, if that's enacted, will have a bigger impact on our local businesses because it's going to be a sweeping tax change."

"In 2017, we had [the Tax Cuts and Jobs Act] and we had to change everything," Anderson added. "Business owners, tax professionals—it greatly impacted us. So [Build Back Better] will greatly impact us at that level again."

Some of the tax changes for businesses in the Build Back Better bill include a 15% minimum tax on companies with more than $1 billion in book income, a 1% surtax on corporate stock buybacks and raising the effective tax rate for foreign earnings on assets like patents and trademarks to 15%.

"But the biggest change is going to be in tax administration and enforcement," Anderson said. The bill would increase investment in "compliance to the tax laws and the enforcement of them. They're going to double down on it, so audits are going to increase—and the IRS wins most of the audits."

So taxes—at least for big businesses—will go up, and the government will keep a closer eye on making sure everyone pays their fair share. But that's not to say those same businesses won't also benefit from the new laws.

Gonzalez, with CSULB, told me that some of the benefits of investing in infrastructure are obvious: It makes the movement of goods more efficient, and people can travel more easily—whether it's for business or leisure. But there are bigger picture advantages that business owners in particular may appreciate.

"It has become a national priority to support businesses and also to be able to compete internationally with China," she said. "China has been moving very aggressively in the modernization of their infrastructure, so they have a very extensive network of high speed trains, they're improving internet access and more."

"In order to keep up with our rivals—both political and economic—we do need to invest in our infrastructure," Gonzalez added, "and that is not just roads, highways, etc. It also involves internet infrastructure, for example, the access to services online."

Not everyone, though, sees the new legislation as a package of smart investments.

James Refalo, a professor in Cal State LA's finance and law department, told me that while the Build Back Better bill may seem beneficial on its face, the way it was written will likely cost far more in the long term—and reduce the country's economic output—than its price tag implies.

That's because many of the social spending provisions—like universal pre-K, for instance—only last a few years. The tax provisions, however, are permanent, which Refalo said serves to artificially lower the official cost of the bill overall.

"They're increasing social spending considerably, creating entitlement programs, and what they're doing to make it look far less costly than it is," he said, "is a lot of these have sunsets, and that way they get around the analysis of the Congressional Budget Office to where it looks more tax-neutral than it is."

"I can't emphasize enough: Once you create programs like this, it's very hard to turn them off, and that is because it's like Social Security or Medicare," Refalo continued. "Way back when Social Security was created, Roosevelt said, 'I'm going to create a program they're never going to be able to get rid of,' and they never could."

Refalo pointed to an analysis by the Wharton School of the University of Pennsylvania that found that while the bill as written would be close to cost-neutral, the cost if most of the spending provisions were permanent would be more than double the revenue brought in over the same time frame. The federal debt, meanwhile, would be 25.2% higher and GDP would be 2.8% lower in 2050, relative to current law, the analysis found.

"As far as social spending, here was a point made by Wharton," Refalo said. "There are certain programs such as the pre-K provisions, that, at the margin, might increase workforce participation and increase GDP, but their comment in there is they thought the contribution would be relatively small as opposed to the increase in cost."

So, what I gleaned from all of these conversations may not be the most novel takeaway. But it essentially boiled down to: What this all means for Long Beach depends on your perspective.

Mayor Robert Garcia, for example, has touted how the infrastructure bill funds will be put to work locally. The Long Beach Airport, he tweeted earlier this month, "is poised to receive millions of dollars to complete our modernization plans that include a new transit center and baggage areas."

Local businesses, meanwhile, may lose out on a helpful tax credit or have a higher chance of being audited. They also may benefit from more efficient movement of goods or a boost in workforce participation thanks to universal pre-K.

What's clear, though, is that these bills will have an impact. Will they help the country "build back better"? We may just have to wait and see. ■