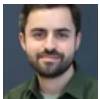


Yes, We Still Need the Electric Vehicle Tax Credit

**Alexander Laska**

Senior Policy Advisor for Transportation, Climate and Energy Program

[@ThirdWayEnergy](https://twitter.com/ThirdWayEnergy)

Key Takeaways

With consumer interest in electric vehicles (EVs) growing, some have started to question whether we still need policy support to drive demand for these vehicles. The short answer is: yes, absolutely. A consumer tax credit for EVs is still essential for several reasons, and Congress should include an expansion of this credit and other improvements in any clean energy package that moves this year. An improved and expanded credit would make EVs more affordable for lower income Americans, help ensure American workers and manufacturers lead the global transition to EVs, and allow more consumers to reap the economic and air quality benefits of EVs.

The Market is Moving to EVs—But We Need to Move Faster

There is no question that the market is moving towards EVs. Ford, General Motors, and Stellantis—the Detroit Big Three—are investing tens of billions of dollars to retool their operations towards EVs and have announced ambitious sales targets. ¹ Tesla sold over 300,000 EVs last year, contributing to the EV market share climbing to nearly 4.5%. ² Electric pickup trucks are coming to market and EV startups are breaking ground on new factories; foreign automakers like Hyundai ³ and Toyota ⁴ are bringing new manufacturing to the US, as well.

In light of all of this good news, it's reasonable to ask whether additional policy support to generate demand for EVs is necessary. But while the global transition to EVs is well underway, what's less certain is who leads and benefits the most from this transition. Governments and businesses in other countries are investing more and at a faster pace—and they will eat our lunch if we don't provide EV demand stimulus to match the competition. An expanded tax credit for EVs is critical if we're going to make sure American workers, consumers, and businesses benefit from this transition and that we can meet our climate goals. ⁵

EV Supply Chain Issues are Fleeting, and We can Overcome Them

The demand for EVs is currently outpacing the supply. ⁶ This is largely due to supply chain constraints such as the ongoing semiconductor shortage ⁷ and the rising cost of critical minerals like lithium, cobalt, and nickel. ⁸ Some skeptics of EVs have cited this challenge when questioning the need for the EV tax credit: why further incentivize something that we can't produce enough of as it is? But these supply chain issues are temporary and the market is already responding by ramping up domestic production, with companies like Intel and SK Innovation building new chip and battery manufacturing facilities here in the US.

The Biden Administration has also stepped up, leveraging the Defense Production Act authorities to support battery minerals development ⁹ and approving a loan to expand a facility in Louisiana that processes graphite—the first loan in over a decade from the Department of Energy's Advanced Technology Vehicles Manufacturing (ATVM) program. ¹⁰ Congress, for its part, included billions of dollars in the bipartisan infrastructure law last year to shore up domestic critical mineral processing and battery manufacturing and recycling. The House and Senate are currently negotiating competitiveness legislation that could include tens of billions of dollars for domestic semiconductor manufacturing. ¹¹

The current supply chain issues are temporary and don't mean we can't or shouldn't accelerate our drive towards EVs. Rather, now is the time to expand and improve the EV tax credit so we can

ensure the high demand for EVs continues and that we can unlock all of the benefits of these vehicles.

Why We Still Need the EV Tax Credit

It will help more people afford an EV.

EV prices are coming down but are still out of reach for many Americans. An expanded tax credit will help more people afford these vehicles, ensuring that it's not just high-income consumers who are able to access all the benefits of EVs.

Additionally, by solidifying demand for these vehicles, the EV tax credit allows manufacturers to “fill up the plants.” As they do this, the average cost of producing an EV will go down because they are increasing the volume throughput in the plant, enabling them to offer EVs at more attractive prices as they take advantage of economies of scale. In this way, the EV tax credit not only makes EVs more affordable now, but will help ensure their affordability long-term.

It will help ensure American workers and companies lead and benefit from the transition to EVs.

The US has roughly 900,000 jobs in auto and auto parts manufacturing. EVs require less labor to assemble than internal combustion engine (ICE) vehicles, which is why it's critical we onshore the entire supply chain—including manufacturing of EV batteries and all of their components—so we don't lose jobs in our transition to EVs.

Manufacturers in the US market need to see growing demand to justify making these investments in the near-term. The tax credit provides manufacturers with a “comfort zone” at a time when they are gearing up to spend billions of dollars to retool facilities, advance new technologies, build new battery cell plants, and develop the new manufacturing processes that EV production requires.

If manufacturers don't have the demand signal they need to make those investments here, they'll make them elsewhere. We risk losing jobs to Europe and China if we continue lagging behind in our transition to EVs. This is because manufacturers build where they sell. China and Europe have attracted tens of billions of dollars in EV investments over the past decade by enacting policies to spur demand for EVs,¹² and we will fall further behind without supportive tax policy.

It will allow us to meet our climate goals.

We need to accelerate EV deployment beyond the current market pace if we're going to meet our climate goals. Transportation is responsible for roughly 28% of US greenhouse gas emissions, with cars and light-duty trucks accounting for over half of that.¹³ Given how long it takes for the national fleet of vehicles to turn over, EVs and other zero-emission vehicles (ZEVs) need to make up 100% of sales by 2035 if we are to decarbonize transportation by 2050. While the market is

moving towards EVs, an expanded tax credit will spur additional demand for these vehicles, getting more of them on the road more quickly.

It will save people more money, faster.

EVs save people money, to the tune of thousands of dollars over the life of the vehicle, because they are cheaper to fuel and maintain than ICE vehicles.¹⁴ Moving rapidly to EVs will save Americans trillions of dollars in reduced fueling and maintenance costs over the next 30 years.¹⁵ But the sticker price of an EV continues to keep these vehicles out of reach for many Americans, even though the lifecycle cost is already lower for an EV than for an internal combustion engine-powered vehicle. An expanded EV tax credit—one that can be administered at the point of sale so that consumers can see the savings immediately—will help more Americans enjoy the longer-term economic benefits of EV ownership.

To be clear, EVs are not going to solve the current oil and gas crisis. But the faster we transition to EVs, the more insulated we will be from future spikes in gasoline prices.¹⁶

It will provide us with cleaner air.

More EVs means cleaner air. In addition to having zero tailpipe greenhouse gas emissions, EVs also reduce pollution of nitrogen oxides, volatile organic compounds, and fine particles. The American Lung Association found that moving towards 100% ZEV sales, combined with moving towards 100% clean electricity to power those vehicles, could generate over \$1.2 trillion in health benefits in the US through 2050, including approximately 110,000 lives saved and 2.7 million asthma attacks avoided.¹⁷

The faster we move towards EVs, the faster we can enjoy the air quality benefits of a cleaner vehicle fleet. This transition will particularly help communities of color, who are disproportionately impacted by air pollution from today's transportation system.¹⁸

Improving and Expanding the EV Tax Credit

If nothing else, Congress needs to act this year to ensure consumers can continue using the existing EV tax credit in the future. This is because the credit in its current form caps how many EVs per automaker are eligible for the credit. Tesla and GM have already exceeded this cap, and as a result EVs made by those companies are no longer eligible for the credit. Toyota is expected to reach the cap this summer,¹⁹ and Ford could hit it by the end of the year.²⁰ If Congress does not raise or—ideally—eliminate the cap, automakers responsible for nearly 80% of US EV sales will be shut out of the credit.²¹ While higher income people will still be able to buy an EV of their choosing, lower income consumers will be left out. This will significantly hinder our ability to get more EVs on the road and won't provide a strong enough market signal to secure new manufacturing investments.

There are other ways the EV tax credit should be improved to help the US meet our goals more effectively. In its current form, consumers claim the credit when they file their tax returns, as opposed to being able to claim the credit at the point of sale; this makes it less useful for lower income Americans who don't file tax returns or who can't afford to wait until tax filing season to see those savings. It also doesn't address the fact that many Americans (particularly lower income) purchase their cars on the used car market.

The House-passed Build Back Better Act would have addressed many of these issues, including by eliminating the automaker cap, making the credit transferable so dealers could take the credit off the sticker price, and establishing a new tax credit for purchasing a used EV. The Build Back Better Act will not become law, but that doesn't have to mean the end of the road for these vital incentives. As the White House and Congressional Democrats explore a possible reconciliation bill or any subsequent tax package, it's critical that they include an expanded, improved tax incentive for EVs in whatever legislation that moves forward.

Conclusion

While the market is moving towards EVs, the EV tax credit will continue to be an important tool to boost demand for these vehicles further, help more Americans afford them, and enable US manufacturers and workers to lead the global transition. Congress should include an expansion of this credit in any reconciliation or clean energy tax package it moves this year. In particular, Congress should remove the automaker cap, make the credit point-of-sale, and provide an incentive for used EVs. These improvements are necessary to ensure we get the full value of this policy and, in turn, unlock the full economic, air quality, and climate benefits of EVs.

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