

Most electric vehicles won't qualify for federal tax credit

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A sales associate talks with a prospective buyer of a Cooper SE electric vehicle on the showroom floor of a Mini dealership July 7, 2022, in Highlands Ranch, Colo. The surprise deal by Senate Democrats on a pared-down bill to support families, boost infrastructure and fight climate change is likely to jump start sales of electric vehicles. Credit: AP Photo/David Zalubowski, File

A tax credit of up to \$7,500 could be used to defray the cost of an electric vehicle under the Inflation Reduction Act now moving toward final approval in Congress.

But the [auto industry](#) is warning that the vast majority of EV purchases won't qualify for a [tax credit](#) that large.

That's mainly because of the bill's requirement that, to qualify for the credit, an electric vehicle must contain a battery built in North America with minerals mined or recycled on the continent.

And those rules become more stringent over time—to the point where, in a few years, it's possible that no EVs would qualify for the tax credit, says John Bozzella, CEO of the Alliance of Automotive Innovation, a key industry trade group. As of now, the alliance estimates that about 50 of the 72 electric, hydrogen or plug-in hybrid models that are sold in the United States wouldn't meet the requirements.

"The \$7,500 credit might exist on paper," Bozzella said in a statement, "but no vehicles will qualify for this purchase over the next few years."

The idea behind the requirement is to incentivize domestic manufacturing and mining, build a robust battery supply chain in North America and lessen the industry's dependence on overseas supply chains that could be subject to disruptions.

Production of lithium and other minerals that are used to produce EV batteries is now dominated by China. And the world's leading producer of cobalt, another component of the EV batteries, is the Democratic Republic of Congo.

Though [electric vehicles](#) are part of a global effort to reduce [greenhouse gas emissions](#), they require metallic elements known as [rare earths](#),

found in places like Myanmar, where an Associated Press investigation has found that the push for [green energy](#) has led to [environmental destruction](#).

Under the \$740 billion economic package, which passed the Senate over the weekend and is nearing approval in the House, the tax credits would take effect next year. For an EV buyer to qualify for the full credit, 40% of the metals used in a vehicle's battery must come from North America. By 2027, that required threshold would reach 80%.

If the metals requirement isn't met, the automaker and its buyers would be eligible for half the tax credit, \$3,750.

A separate rule would require that half the batteries' value must be manufactured or assembled in the North America. If not, the rest of the tax credit would be lost. Those requirements also grow stricter each year, eventually reaching 100% in 2029. Still another rule would require that the EV itself be manufactured in North America, thereby excluding from the tax credit any vehicles made overseas.

Automakers generally don't release where their components come from or how much they cost. But it's likely that some versions of Tesla's Model Y SUV and Model 3 car, the Chevrolet Bolt car and SUV and the Ford Mustang Mach E would be eligible for at least part of the credit. All those vehicles are assembled in North America.

The tax credit would be available only to couples with incomes of \$300,000 or less or single people with income of \$150,000 or less. And any trucks or SUVs with sticker prices above \$80,000 or cars above \$55,000 wouldn't be eligible.

There's also a new \$4,000 credit for buyers of used EVs, a provision that could help modest-income households go electric.

The industry says the North American battery supply chain is too small right now to meet the battery component requirements. It has proposed that the measure expand the list of countries whose battery materials would be eligible for the tax credit to nations that maintain defense agreements with the United States, including NATO members.

One component of the bill would require that after 2024, no vehicle would be eligible for the tax credit if its battery components came from China. Most vehicles now have some parts sourced in China, the alliance said.

Sen. Debbie Stabenow, a Michigan Democrat and a leading ally of Detroit automakers, complained that Sen. Joe Manchin of West Virginia, a critical Democratic vote, had opposed any tax credits for EV purchases.

"I went round-and-round with Senator Manchin, who frankly didn't support any [credit](#) of any kind, so this is a compromise," Stabenow told reporters Monday. "We'll work through it and make this as good as we can for our automakers."

Manchin, long a holdout Democrat who negotiated terms of the deal with Senate Majority Leader Chuck Schumer, had blocked previous climate and social spending proposals.

Manchin's office declined to comment. He told reporters last week that he wants automakers to "get aggressive and make sure that we're extracting in North America, we're processing in North America and we put a line on China. I don't believe that we should be building a transportation mode on the backs of foreign supply chains. I'm not going to do it."

Stabenow asserted that the bill was written by people who don't

understand that manufacturers can't simply flip a switch and create a North American supply chain, though they are working on it. Numerous automakers, including General Motors, Ford, Stellantis, Toyota and Hyundai-Kia, have announced plans to build EV battery plants in the United States.

Katie Sweeney, executive vice president of the National Mining Association, said that industry leaders "like the requirement that minerals for batteries be sourced close to home rather than from our geopolitical rivals."

"Doing that," she said, "directly supports high-paying jobs here in the United States ... secures our supply chain and really enhances our global competitiveness."

Stabenow said she remains hopeful that the Biden administration can offer the tax credits next year while it works on the detailed rules for the battery requirements.

"We will continue to work with the automakers and the administration on getting as much common sense into the regulations as possible," the senator said.

Messages were left Monday seeking comment from the White House and the Treasury Department, which would administer the credits.

Stabenow says she's pleased that the measure would restore tax credits for General Motors, Tesla and Toyota, all of which hit caps under a previous bill and can no longer offer them. Ford, too, she said, is closing in on an EV cap.

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