Press Release

Proposed Tax Credits Would Make Electric Vehicles More Expensive

PAULINA ENCK | AUGUST 4, 2022

The Inflation Reduction Act contains tax credits intended to incentivize the purchase of electric vehicles (EVs) as part of the Biden Administration's climate agenda. In a new insight, Director of International Economic Policy Tori Smith explores the problems with these tax credits for "clean vehicles" and explains why automakers may find that they can more affordably meet consumer demand without them.

Key points:

- Provisions in the Inflation Reduction Act seek to incentivize the purchase of EVs by offering consumers a tax credit of $7,500 for new EVs and $4,000 for used EVs, with the goal of making the vehicles more affordable.
- Unlike the current EV tax credit system, the proposed credits would require automakers to abide by price ceilings for their EVs, restricting the number of vehicles eligible for the credit and increasing consumer costs.
- The provisions also contain regional sourcing requirements for vehicles to qualify for the credit, which would make EVs more expensive for consumers to buy than under the current tax credit system, and thus, automakers may opt to forgo producing vehicles eligible for the credit entirely.

Read the analysis