Electrification Coalition

Analysis

The Role of Tax Credits in the Electric Vehicle Deployment Act

The Electric Vehicle Deployment Act (EVDA) will advance the wide-scale deployment of grid-enabled vehicles (GEVs) and the infrastructure needed to support them. It establishes a competition in which geographic areas would compete to be selected as GEV "deployment communities," in which incentives are employed so that all of the elements of an electrified transportation system are deployed simultaneously. The bill's goal is the deployment of 700,000 GEVs within five years.

01 THE VEHICLE TAX CREDIT PROPOSED IN THE EVDA

EVDA encourages the sale of high concentrations of GEVs by offering enhanced tax credits to purchasers who register their new GEVs in deployment communities. While leaving the existing tax credit of up to $7,500 for GEVs completely intact for the entire nation, it increases the value of the tax credit by $2,500 within deployment communities and makes it transferable.

02 MAKING THE CREDIT TRANSFERABLE

Making the vehicle income tax credit transferable within deployment communities will enable the market to effectively use it as a point-of-sale rebate. The existing income tax credit for GEVs may be used by consumers as a credit against their federal income taxes. For nearly all taxpayers, that means they cannot capture the value of the income tax credit until they file their income tax return, a delay that can easily exceed a year. Making the income tax credit transferable will allow auto dealers or other third parties to "purchase" the income tax credit from the consumer at the point of sale, effectively converting it from an income tax credit to a point-of-sale rebate.

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03 THE IMPORTANCE OF TRANSFERABILITY

A point-of-sale rebate is significantly more attractive to consumers for several reasons:

- **Immediacy:** Consumer captures value of the credit immediately. No waiting months for a rebate.
- **More Value to Consumer:** Receiving a point-of-sale rebate instead of a delayed income tax credit means that consumers do not have to finance the costs of the rebate, reducing monthly payments.
- **Certain Value:** For some taxpayers, it may be hard to confirm sufficient tax liability to use the existing credit until they file their taxes. The value of a point-of-sale rebate is certain at the point-of-sale.

04 PROVING THE POINT

For these reasons, a point-of-sale rebate of a given size will be significantly more effective in increasing sales than an income tax credit of the same exact size. A 2008 Harvard study of the effect of different types of incentives on the purchase of hybrid vehicles confirmed that consumers respond more favorably to point-of-sale rebates than delayed income tax credits. That study compared consumer response to a waiver of state sales tax, which reduced the total vehicle purchase price at the point of sale, to a tax credit that consumers could not capture until they filed their state income tax returns. That study found that consumers were nearly *four times as likely to respond to a point-of-sale rebate of a given size than a tax credit of the same exact size.*

05 TAX CREDIT WITHOUT TRANSFERABILITY

The Department of Energy estimated that the existing $7,500 tax credit without transferability would result in the deployment of only 4.2 million GEVs out of approximately 300 million light-duty vehicles by 2035.

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