

IRA EV Tax Credits



SAFE

Electrification
Coalition

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The Inflation Reduction Act (IRA) of 2022 is a landmark piece of legislation that advances several long-standing policy priorities of SAFE and the Electrification Coalition (EC).

These provisions will move America closer to achieving our core mission of reducing dependence on oil in the transportation sector. They establish a critical base of industrial policies that will enable the longer-term transition towards more diverse, secure, and reliable sources of energy to fuel an electrified future. The bill represents the first serious attempt by the United States to take a comprehensive approach to our nation's energy security challenges. SAFE and the EC accelerate the real-world deployment of secure, resilient, and sustainable transportation and energy solutions by shaping policies, perceptions, and practices that create opportunity for all.

The IRA extends the Section 30D tax credit for electric vehicles (EVs) and establishes a new tax credit (Section 25E) for used EVs, as well as establishes a new tax credit (Section 45W) for commercial EVs. SAFE and the EC have long advocated for these provisions to ensure a robust domestic EV market. At the same time, the IRA establishes new sourcing requirements for EVs intended to grow battery mineral and component supply chains within North America and amongst countries with which the United States has free trade agreements. In many cases, these provisions reflect proposals that SAFE and the EC have crafted and advocated for over the past decade. A summary of the changes through 2032 follows:

Summary of 30D Provisions

Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
200,000 per man. cap	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
MSRP cap	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Income cap	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tax credit as rebate	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓
Final Assembly in North America	✓ ¹	✓	✓	✓	✓	✓	✓	✓	✓	✓
Critical mineral % of value requirement ² (\$3,750 tax credit)	40%	50%	60%	70%	80%	80%	80%	80%	80%	80%
Critical minerals foreign entities of concern rule	—	—	✓	✓	✓	✓	✓	✓	✓	✓
Battery component % of value requirement ³ (\$3,750 tax credit)	50%	60%	60%	70%	80%	90%	100%	100%	100%	100%
Battery component foreign entities of concern rule	—	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maximum tax credit	\$7500	\$7500	\$7500	\$7500	\$7500	\$7500	\$7500	\$7500	\$7500	\$7500

1. Immediately following the date of enactment (i.e., 2022 and 2023)

2. Percentage of value of critical minerals mined or processed in the U.S. or FTA countries, or recycled in North America

3. Percentage of value of battery components manufactured or assembled in North America

Requirements to Qualify for the Revised \$7,500 EV Tax Credit (Section 30D)

The revised credit requires the final assembly of the vehicle in North America and will immediately take effect following the date of enactment of the legislation. The current 200,000 vehicle cap per manufacturer is lifted starting in 2023. Also, in 2023, new MSRP and income caps will apply. Starting January 1, 2024, a taxpayer may elect to transfer the credit to a dealer, which will enable buyers to receive the credit as a rebate at the point of sale. A dealer is defined as "a person licensed by a State, the District of Columbia, the Commonwealth of Puerto Rico, any other territory or possession of the United States, or an Indian tribal government to engage in the sale of vehicles."

MSRP limits:

SUVs, vans, pick-up trucks	Other Vehicles
\$80,000	\$55,000

Income limits for different tax statuses:

Single	Head of HH	Filing jointly
\$150,000	\$225,000	\$300,000

EVs will also need to meet both the critical mineral and battery component requirements to qualify for the maximum available credit.

- EVs meeting the critical mineral requirement will be eligible for a \$3,750 tax credit.
- EVs meeting the battery component requirement will be eligible for an additional \$3,750 tax credit.

Qualifying EVs must meet the foreign entities of concern requirement:

- Starting in 2024, vehicles cannot have any battery components sourced from a foreign entity of concern, which includes China.
- Starting in 2025, EV batteries cannot have any critical minerals sourced from a foreign entity of concern, which includes China.

New Tax Credit for Used EVs (Section 25E)

Used EVs will be eligible for tax credits for the first time ever through the creation of a new tax credit under Section 25E, until the end of 2032. Section 25E states:

- Buyers can qualify for a credit that is the lesser of \$4,000 or 30% of the sales price for used EVs weighing less than 14,000 lbs.
- The sales price of a qualified used EV cannot exceed \$25,000, and the vehicle must be at least two years old.
- A qualifying vehicle must also be propelled to a significant extent by an electric motor that draws electricity from a battery, and which has a capacity of not less than 7 kWh, and is capable of being recharged from an external source of electricity.
- The transfer of the credit (at point of sale) to a dealer, as defined under Section 30D(g), can happen after Dec. 31, 2023.

There are also income caps for eligibility:

Single	Head of HH	Filing jointly
\$75,000	\$112,500	\$150,000

Only taxpayers that have not been allowed a credit for purchase of the used clean vehicle under section 25E in the three years prior to the sale are eligible. The credit can also only be applied once per vehicle.

New Tax Credit for Commercial EVs (Section 45W)

Commercial EVs will be eligible for tax credits for the first time ever through the creation of a new tax credit under Section 45W, until the end of 2032:

- The eligible credit amount per qualified commercial EV is the lesser of 30% of the sales price or the incremental cost of the vehicle. The incremental cost is defined as the difference between the purchase price of the EV and a comparable internal combustion engine vehicle.
- The tax credit is capped at \$7,500 for vehicles with a gross vehicle weight rating (GVWR) of less than 14,000 lbs, and capped at \$40,000 for vehicles with a GVWR of more than 14,000 lbs.
- The vehicle must be used for business purposes.
- There are no battery or mineral sourcing requirements under Section 45W.

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