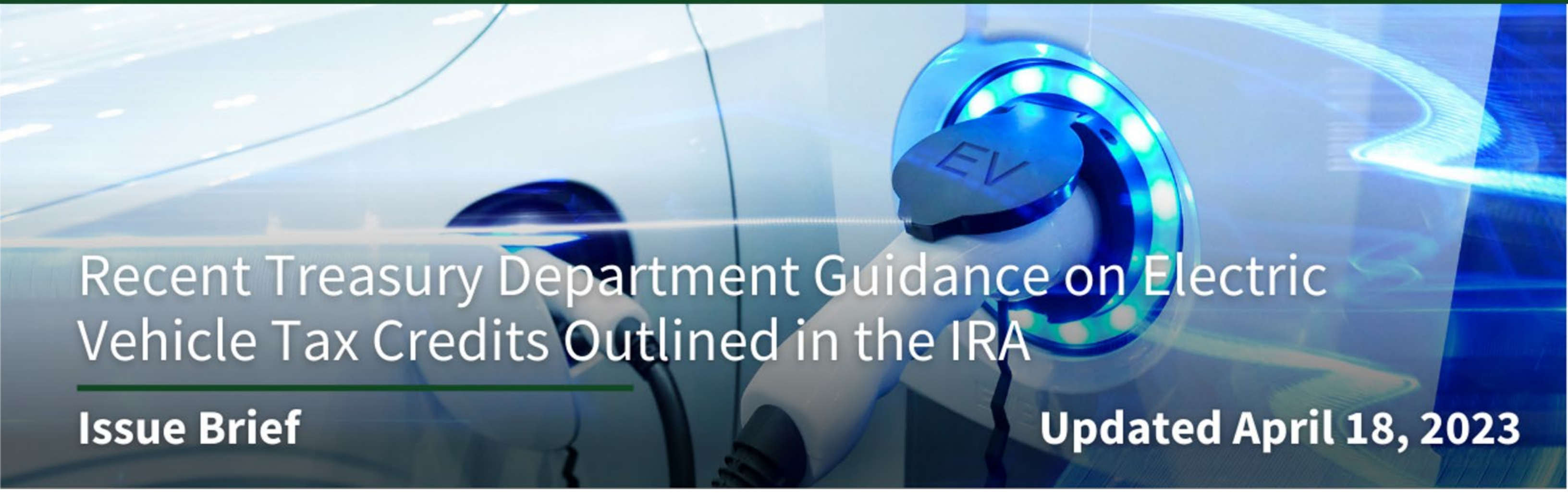
The Business Council for Sustainable Energy®

ENERGY EFFICIENCY
NATURAL GAS
RENEWABLE ENERGY



Recent Treasury Department Guidance on Electric Vehicle Tax Credits Outlined in the IRA

Issue Brief — **Updated April 18, 2023**

The passing of the Inflation Reduction Act (IRA) of 2022 (P.L.117-169) introduces nearly $400 billion in federal funding for clean energy, with the goal of lowering carbon emissions. The funds will be delivered through a mix of tax incentives, grants, and loan guarantees directed toward clean electricity, transmission, and clean transportation, including electric vehicle (EV) incentives. The act gives the Treasury Department an elevated role in issuing guidance on how the $369 billion in federal tax credits will be administered.

The IRA includes up to $7,500 in federal tax credits for consumer and commercial electric vehicles (EVs), with caps on vehicle price and levels of consumer income allowed to qualify for the credit, while removing previous caps on how many electric vehicles per manufacturer are eligible for the credit. The Treasury Department has released a white paper proposing how particular regulations such as battery sourcing requirements and domestic production of the EV could be gradually introduced over the next two years.

IRA EV Tax Credit Requirements

EVs assembled in North America. The IRA limits the tax credits to EVs assembled in North America and has strict requirements for consumer eligibility (Section 30D of the IRA).

Income caps for consumers and vehicle price. As of January 1, 2023, consumer qualifications for the tax credit include:

- Income less than $150,000 for single individuals
- Income less than $225,000 for heads of household
- Income less than $300,000 for married couples filing a joint tax return

EV price qualifications for the tax credit include:

- Retail price of less than $55,000 for sedans
- Retail price of less than $80,000 for vans, SUVs, and trucks

Critical mineral and battery sourcing requirements. The $7,500 consumer credit breaks down into two parts:

- **$3,750 critical mineral credit.** At least 40% must be extracted or processed in the United States, in a country with a free-trade agreement with the U.S., or from materials recycled in North America.
- **$3,750 battery sourcing credit.** At least 50% of the EV battery components must be manufactured or assembled in North America.

The 40% and 50% requirements for each portion of the credit will rise annually; these stipulations intend to reduce reliance on foreign countries and transition the U.S. away from battery materials from China, which accounts for nearly 70% of global battery cell supply. The critical mineral and battery sourcing credit requirements do not take effect until final guidance is published by the Treasury Department regarding the certification process for manufacturers to verify the sourcing of critical minerals and battery components. As described below, the Treasury Department released updated guidance on March 31, 2023, addressing the battery and critical mineral provisions for the EV tax credit.

The commercial EV tax credit does not have the same sourcing restrictions but can still qualify for up to $7,500 in federal tax credits. These requirements also apply to leased vehicles (Section 45W of the IRA). Under those rules, car dealers could qualify for $7,500 in tax credits for leased vehicles without meeting either of the domestic battery and critical minerals requirements.

March 2023 Battery Sourcing and Critical Mineral Requirement Guidelines

On March 31, 2023, the Treasury Department released updated guidance addressing the battery and critical mineral provisions for the EV tax credit, which go into effect April 18, 2023. By April 18, the U.S. Department of Energy will provide a list of eligible vehicles and the tax credit amount available for each vehicle at fueleconomy.gov.

For vehicles placed into service before April 18, 2023, the up to $7,500 credit is calculated as follows:

- Base credit of $2,500
- An additional $417 credit if the EV battery meets a capacity of 5 kilowatt hours
- An additional $417 per kilowatt hour of capacity beyond 5 kilowatt hours

For vehicles placed into service on or after April 18, 2023, the $7,500 credit is divided between the $3,750 critical mineral credit and the $3,750 battery sourcing credit detailed above.

Both the critical mineral and battery sourcing requirements will increase based on the fiscal year the EV is placed into service. This breakdown is illustrated in the flow chart in Figure 1 (see last page).

The new proposed rule – published in the federal register on April 17, 2023 – receives public comments through June 16. Until the final rule is made, vehicles placed into service on or after April 18 will use the proposed rule as a guide. The updated guidance only applies to new EV purchase

Timeline of Proposed Rule

March 31, 2023	Updated EV battery sourcing requirement guidelines released
April 18, 2023	New EV battery sourcing requirement guidelines went into effect
June 16, 2023	Proposed rule comment period ends

credit (Section 30D) for cars purchased on or after April 18, 2023 and does not impact leasing provisions (Section 45W) or used EV provisions (Section 25E).

Short- and Long-Term Implications

As a result of the Treasury Department's updated guidance, many vehicles will no longer qualify for the tax credits if purchased after April 18 (depending on where their battery components and critical minerals are sourced). However, the Biden Administration perspective remains that although fewer cars will qualify for the full credit, the Inflation Reduction Act will work to strengthen the U.S. industrial base – inducing a long-term policy shift that will enable more vehicles to qualify as production gets moved to North America.

According to reporting from Electrek, "$45 billion worth of new electric car manufacturing investments have been announced since the [IRA] was signed. This accounts for tens of thousands of jobs across 24 states, along with several other commitments related to the law's EV-adoption goals," including public charging and electric transit infrastructure.

Residual Questions

Further guidance is expected to come from the Treasury Department later this year, clarifying the IRA's foreign entity of concern (FEOC) stipulation. The IRA states, "Beginning in 2024, an eligible clean vehicle may not contain any battery components that are manufactured by a foreign entity of concern and beginning in 2025 an eligible clean vehicle may not contain any critical minerals that were extracted, processed, or recycled by a foreign entity of concern." Since the law does not specify a list of FEOCs, the Treasury Department must provide a list by the end of 2023. It is unclear whether the Treasury will focus on national or subnational entities.

More electric vehicles may qualify for the IRA's tax credits as the United States expands its trade agreements. On March 28, 2023, the United States signed a free trade deal with Japan on critical minerals and is expected to reach a similar agreement with Europe that will allow for more vehicles to qualify.

For more information on this topic:

Proposed Rule in the Federal Register

The Official US Government Source for Fuel Economy Information

Updated IRS FAQ on EV Credits

Treasury Department Press Release on Updated Guidance

About BCSE Issue Briefs

These issue briefs are written and researched by BCSE staff. Are there any current energy news, policy areas, or pieces of legislation you'd like to learn more about? Let us know – reach out to Lizzie Stricklin, Communications Manager with any comments or topic suggestions.

Figure 1, Electrek EV Tax Credits Flow Chart