



Incentives, They Are A-Changin': How the Inflation Reduction Act modified the Federal Electric Vehicle Tax Credit.

If you're in the market for an EV you've likely heard about a \$7,500 tax credit. That federal income tax credit helped thousands of drivers make the switch to electric. Importantly, [the Inflation Reduction Act \(IRA\)](#), signed into law on August 16, 2022, makes significant changes to the credit that affect which cars qualify for the full \$7,500 consumer tax credit. This fact sheet explains what changed, what stayed the same, and reviews new incentives for businesses and for used electric vehicles (EV).

For Consumers: \$7,500 tax credit is available, so long as the vehicle meets certain manufacturing and sourcing requirements, but as of now, which vehicles will qualify is uncertain.

The first thing to understand is that the tax credit that has been in effect since 2009 was replaced with a tax credit that prioritizes domestic manufacturing of EVs. So, if you have already purchased and received your car by August 16, 2022 (or entered into a binding purchase agreement), you will be able to claim the \$7,500 credit, unless that manufacturer had already reached their sales cap (namely Tesla and General Motors).

For the remaining months of this year, a transition rule has been put into place. Under the transition rule you can still claim the existing credit so long as you had a binding contract in place to purchase the car by August 16, 2022. To be clear, if you purchased or received your EV after August 16, 2022 and you did not have a binding contract in place already, you will only be able to qualify for the revised tax credit if your vehicle is eligible.

The tax credit changes in three critical ways that limit which vehicles qualify for the full \$7,500 credit.

- Effective immediately, all EVs must be built in North America
- Starting in 2023, EV models must meet the following domestic content and sourcing requirements to be eligible for the full tax credit:
 - A credit of \$3,750 if the materials for an EV's battery have been sourced in the United States (or from a U.S. trade ally)
 - An additional \$3,750 credit if an EV model's battery components have been assembled or manufactured in the United States (or by a U.S. trade ally).

As of today, these changes to have drastically reduced the number of [vehicles that qualify for the credit](#). An updated list of vehicles that qualify will be maintained by the Federal Government and can be accessed [here](#). We expect that over time the number of vehicles will grow as the IRA removed the per-manufacturer cap for tax credit eligibility.

In addition, the updated new vehicle tax credit includes income caps. Joint filers whose adjusted income is less than \$300,000 (\$150,000 for single filers) will be eligible for the credit. In addition, sedans have to be under \$55,000 to qualify; trucks, vans, and sports utility vehicles can't exceed \$80,000.

Finally, purchasers will be able to transfer the EV tax credit to qualified auto dealers starting in 2024, enabling purchasers to immediately use the tax credit as an upfront discount on the purchase price of the vehicle.

New Vehicles Purchased by Consumers

DATE	Before Aug. 16 2022	Aug. 16-Dec. 31, 2022	Jan. 1 2023-Dec. 31, 2032
Per Manufacturer Cap	Tax credit capped for manufacturers selling over 200,00 EVs	Tax credit capped for manufacturers selling over 200,00 EVs	Per manufacturer cap eliminated
Requirement for final assembly to be in North America	No	Yes	Yes
Battery Component Location Requirement	N/A	N/A	<ul style="list-style-type: none"> • At least 50% of battery components in an EV model must be manufactured in the U.S. or with a country that U.S. has a free trade agreement, increases to 100% in 2029 • \$3,750 credit for EV models that meet requirement
Critical Battery Minerals Processing and Recycling Location Requirement	N/A	N/A	<ul style="list-style-type: none"> • At least 40% of critical minerals in the battery components in an EV model must be recycled or processed in the U.S. or with a country that U.S. has a free trade agreement, increases to 100% in 2029 • \$3,750 credit for EV models that meet requirement
Per Vehicle Price Cap	N/A	N/A	<ul style="list-style-type: none"> • \$55,000 or less for a passenger car • \$80,000 or less for an SUV, van, or pickup
Taxpayer Income Limit	N/A	N/A	<ul style="list-style-type: none"> • Individual: \$150,000 or less • Head of Household: \$225,000 or less • Joint: \$300,000 or less
Transfer Credit Direct to Auto Dealer	N/A	N/A	<ul style="list-style-type: none"> • Available starting Jan. 1, 2024

Used Vehicles: Max of \$4,000 off the purchase of a used EV less than \$25,000 from a dealer.

The IRA contains a new tax credit for the purchase of a used EV. In order to qualify for this credit your adjusted income must be less than \$75,000 for single filers, \$112,500 for head of households and \$150,000 for couples. In addition, the car must have a sale price of less than \$25,000. Only purchases from an auto dealer will be eligible for this credit, the EV must be at least two years old, and it only applies to the first resale of the vehicle. However, the domestic production and sourcing requirements placed on new EVs will not apply to used EVs.

Date	Jan. 1, 2023	Jan 1, 2024
Final Assembly Requirement	No	No
Transfer Credit Direct to Auto Dealer	No	Yes
Per Vehicle Price Cap	\$25,000	Same
Taxpayer income limit	\$75,000 for single filers, \$112,500 for head of households and \$150,000 for couples. (Adjusted Gross Income)	Same

For Businesses: \$7,500 for light-duty EVs, \$40,000 for Medium-Heavy Duty Vehicles.

Businesses and business entities will have access to a different set of credits. Importantly, for businesses, the credits are not tied to any domestic production or sourcing requirements. This means that the pool of electric vehicles available to business owners will be larger than what is available for consumer tax credits.

For vehicles under 14,000 lbs. (class 3 and under) you qualify for a \$7,500 credit. For vehicles larger than 14,000 lbs. (class 4 and up) you qualify for a \$40,000 tax credit. These credits can be transferred to the dealer and be used as a point of sale credit.