October 4, 2019

The Honorable Charles Grassley
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Richard Neal
Chairman, House Ways and Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairmen Grassley and Neal:

On behalf of National Taxpayers Union, I respectfully urge you to oppose efforts to raise the cap on tax credits for electric vehicles (EVs). As it is currently structured, the program provides disproportionate benefits to wealthy consumers and primarily serves to subsidize EV purchases that would have occurred without the credit.

Created in 2009 as part of President Obama's economic stimulus package, the EV tax credit program provides a credit of up to $7,500 to buyers of qualified vehicles. It limits each manufacturer to 200,000 vehicles that are eligible under the program. Once that cap is reached, it winds down the value of the credits for that particular manufacturer's EVs over a year-long period.

Now that two carmakers have hit their cap and entered the phase-out period, some in Congress are trying to boost the number of available credits. For instance, the Driving America Forward Act (S. 1094/H.R. 2256) would provide each manufacturer with an additional 400,000 credits while reducing the maximum size of each credit to $7,000. This legislation is misguided.

Lawmakers who want to encourage consumers to purchase more EVs should instead consider reasonable reforms to the poorly structured program. Means-testing, for instance, could help direct tax benefits away from the wealthy and towards people who would be more likely to change their buying decision due to the credit. As it stands, research shows that approximately 70 percent of credit recipients would have purchased an EV without the tax benefit. Most of these individuals have incomes well above that of the median American. Means-testing could be accomplished by limiting eligibility to vehicles below a certain price, or by placing income restrictions on credit recipients as California has done for its state EV tax credit program.

Additionally, policymakers should consider abandoning the manufacturer-specific limit on credits in favor of an overall cap. An aggregated cap would encourage more automakers to bring their EVs to market as quickly as possible and end the price disadvantage facing earlier market entrants that have exhausted their allotment.

In its current form, the EV tax credit program serves taxpayers poorly. It fails to effectively nudge consumers to purchase EVs, provides benefits disproportionately to wealthier Americans, and distorts the EV marketplace in favor of certain manufacturers. I strongly urge you to not raise the caps. At a minimum, Congress should adopt reasonable reforms to the EV program as it works to phase out the tax credit.

Sincerely,

Brandon Arnold
Executive Vice President

Cc: Senate Finance Committee Members, House Ways and Means Committee Members

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