

Issue Brief

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What's the Deal with Tax Credits for Electric Vehicles?

The gargantuan \$3.5 trillion Build Back Better [spending bill](#) currently under consideration in Congress includes [expanded tax credits](#) of up to \$12,500 for car buyers purchasing an electric vehicle (EV).¹ This includes increasing the current \$7,500 EV base subsidy by adding another \$4,500 subsidy for vehicles assembled in the United States by union workers, and another \$500 in subsidies for vehicles that have American-made batteries. The subsidies would be available for vehicles that cost up to \$55,000 for sedans, \$69,000 for SUVs, and \$74,000 for pickup trucks.

There are several flaws with these proposals. For example, President Biden has said that it is important to increase the use of electric vehicles in order to tackle the climate crisis, but the Build Back Better bill makes it harder to achieve this goal by restricting the scope of new EV credits. House Speaker Nancy Pelosi and others say Build Back Better is supposed to help middle class taxpayers, but the EV credits would be available to taxpayers who earn up to \$400,000 a year.

U.S. to China: Do as we say, not as we do

The \$4,500 bonus subsidy and the \$500 battery subsidy would not be available for any vehicles assembled in other countries. These provisions violate long-standing trade rules that the United States has agreed to — specifically, to apply the same standards to imported goods as we apply to domestically made goods.

¹ United States House of Representatives, Committee on Ways and Means, “Build Back Better Act: Subtitle F, Infrastructure Financing and Community Development.”

The World Trade Organization's Agreement on Subsidies and Countervailing Measures [explicitly prohibits](#) subsidies contingent on the use of domestic over imported goods.² By violating this provision, an American-only subsidy could subject U.S. exporters to retaliatory tariffs imposed by our trading partners.

This provision also undermines efforts to prevent other countries from adopting measures that discriminate against U.S. exports. For example, the U.S. Section 301 investigation into China's trade practices that led to massive tariff hikes [highlighted](#) "a range of Chinese policies, including steep import tariffs and subsidies available for domestically-produced NEVs (new energy vehicles), as well as a new NEV credit system."³ It would be hypocritical and counterproductive for the United States to criticize Chinese subsidies for their domestic vehicles while imposing similar subsidies of our own.

In addition, the American-made restriction runs counter to the Biden administration's alleged EV goals. If increasing the use of zero-emission vehicles is a real priority, it would make more sense for the government to provide a \$12,000 subsidy for all EVs regardless of where they are made, instead of restricting 40 percent of the potential subsidy to vehicles assembled by American union members.

Pitting UAW workers in Michigan against non-union workers in Georgia

The proposed EV-subsidy bill would give preferential treatment to auto workers who belong to unions at the expense of [non-union auto workers](#) in Alabama, California, Georgia, Indiana, Kentucky, Mississippi, Missouri, Ohio, South Carolina, Tennessee, Texas, and West Virginia.⁴ This would disadvantage [more than half](#) of U.S. auto workers.⁵ It's no wonder that Autos Drive America, the trade association representing many international car manufacturers, called the proposal "[un-American](#)" and "[an insult](#)" to U.S. auto workers.⁶

This limitation appears to be a thinly veiled attempt to buy off support from labor unions that worry they'll lose members in the transition to electric vehicles. As recently as 2018, United Auto Workers (UAW) research director Jennifer Kelly [observed](#): "The workers who are making engines and transmissions today, their jobs will be eliminated when we make a transition to electric vehicles."⁷

As with the Buy American provisions, restricting the subsidy to union-built vehicles is environmentally costly and runs counter to the Biden administration's [stated goal](#) for 50 percent of all new passenger cars and light trucks sold in 2030 to be zero-emission vehicles.⁸ As [Toyota](#) put it, the EV proposal "puts the environment second to unrelated agendas." It stands to reason that if the goal of EV tax credits is to reduce carbon emissions by encouraging more people to buy electric vehicles, these credits should be broad-based and apply to as many vehicles as possible, not restricted based on employees' participation in collective bargaining agreements.

Subsidizing rich car buyers

House Speaker Nancy Pelosi says the Build Back Better Act is [supposed](#) to cut taxes for the middle class and make sure "the wealthiest" pay their fair share.⁹ But the proposed EV subsidies would benefit wealthy Americans and do little for the middle class. The new subsidies would be available to individuals earning up to \$400,000 and joint filers earning up to \$800,000 — in other words, almost everyone.

² "Agreement on Subsidies and Countervailing Measures." World Trade Organization.

³ "Findings of the Investigation of China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974." Office of the United States Trade Representative, March 22, 2018.

⁴ "Autos Drive America Launches Advertising Campaign to Oppose Discriminatory Electric Vehicle Tax Credits." Autos Drive America Press Release, September 21, 2021.

⁵ Muller, Joanne, "The face of America's auto industry is changing." *Axios*, August 31, 2021.

⁶ "Autos Drive America Statement on House Ways and Means EV Tax Incentive Plan." Autos Drive America Press Release, September 13, 2021.

⁷ Beene, Ryan, and Gabriella Coppola, "Electric Vehicles Seen Imperiling US Jobs, UAW Says." *Bloomberg News*, July 19, 2018.

⁸ President Joe Biden, "Executive Order on Strengthening American Leadership in Clean Cars and Trucks." The White House, August 5, 2021.

⁹ Nancy Pelosi (D-CA), Speaker of the United States House of Representatives, "Dear Colleague: Congress Must Pass the Continuing Resolution, BIF and Build Back Better Act This Week." Press Release, September 25, 2021.

According to the [Congressional Research Service](#): “EV tax credits are disproportionately claimed by higher-income taxpayers. Most of the tax credits (78%) are claimed by filers with adjusted gross income (AGI) of \$100,000 or more.”¹⁰ While it could be argued that lowering the eligibility threshold to a more reasonable level might conflict with the goal of stimulating EV purchases, research shows that [70 percent](#) of EV tax credits have gone to people who would have bought a vehicle even without the subsidy.¹¹

Rep. [Mike Kelly](#) (R-PA), chairman of the House Auto Caucus, observed: “I just don’t understand why in the world we are subsidizing the wealthiest people in America to buy something they consider a trinket.”¹² Sen. Deb Fischer (R-NE) [echoed this view](#): “We shouldn’t be subsidizing luxury vehicles for the rich using money from hard-working taxpayers.”¹³

If Congress is serious about helping the middle class instead of the wealthiest Americans, then it should target any subsidies to people who need them in order to afford a new EV instead of throwing money at rich car buyers.

There’s no doubt that these tax credits are part of an effort by the federal government to pick winners and losers in the EV marketplace. Such subsidies open the door to policies based on inside-the-beltway political deals. That’s why the American International Automobile Dealers Association called on Congress to “stop playing politics with car sales.”¹⁴

As NTU has [pointed out](#) in the past, Americans should be free to choose a Tesla Model 3 made in the USA by non-union workers, a Chevrolet Bolt made in the USA by UAW workers, or a Ford Mustang Mach E made in Mexico based on their own preferences and needs, not based on who has the best connections in Congress.¹⁵ Any new EV credits should, at a minimum, comply with U.S. trade commitments and treat all American workers equally.

About the Author

Bryan Riley is the Director of NTU’s Free Trade Initiative.

¹⁰ Sherlock, Molly F., “The Plug-In Electric Vehicle Tax Credit.” Congressional Research Service, May 14, 2019.

¹¹ Xing, Jianwei, Benjamin Leard, and Shanjun Li, “What Does an Electric Vehicle Replace?” Working Paper 25771, National Bureau of Economic Research, Revised February 2021.

¹² Beggin, Riley, “House Republicans slam EV tax credit plan as ‘perverse’ and ‘unfair.’” *The Detroit News*, September 14, 2021.

¹³ Sen. Deb Fischer (R-NE). Twitter Post. August 10, 2021.

¹⁴ “International Nameplate Dealers: Stop Playing Politics with Car Sales.” American International Automobile Dealers Association, Press Release, September 12, 2021.

¹⁵ Wayland, Michael, “From ‘blatantly biased’ to ‘discriminatory’: Tesla, Toyota and Honda criticize \$4,500 EV tax incentive for union-made vehicles.” CNBC, September 14, 2021.



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