Kelley Blue Book Helps Car Shoppers Navigate Electric Car Tax Credits

Amid Rapid Segment Growth, Tax Season and Earth Day, Experts Break Down EV Tax Credit Details and More

IRVINE, Calif., April 22, 2021 /PRNewswire/ -- Electric cars undoubtedly are the wave of the future, and growth in the segment is on quite an upward trajectory. According to data from Cox Automotive, electrified vehicles accounted for 7.8% of the total Q1 2021 sales, up from 4.8% in the same period last year. By the end of 2024, experts expect to see more than 100 electric models available to car shoppers. With an ever-growing list of new electric vehicles (EVs) hitting the marketplace, many shoppers are intrigued by the option to switch from gasoline to electric. Yet as they seek to understand the environmental and financial benefits an electric car provides, shoppers may be confused trying to navigate the details of available tax credits for EV owners. Accordingly, here amid tax season and just in time for Earth Day 2021, the experts at Kelley Blue Book created How Do Electric Car Tax Credits Work? to help break down the facts.



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"The electric car market is quickly growing, and data shows that car shoppers are getting more on board with the idea of driving an EV," said Matt DeLorenzo, senior managing editor for Kelley Blue Book. "While it's easy to understand the environmental benefits of driving an EV, sometimes the nuances of the financial benefits aren't quite as clear. Available incentives can vary greatly on the state and local level, but the well-publicized federal tax credit is something that certainly piques the interest of many shoppers considering going electric. We want to help them understand these details so they can go into the car-buying process feeling confident and knowledgeable."

Understanding the $7,500 Federal Tax Credit

Most shoppers considering an EV likely have heard of the most significant government incentive, a federal tax credit worth $7,500 for certain alternative-energy cars. While that can help drive down the overall cost of a more expensive EV, shoppers should understand the details and that it doesn't necessarily apply in all circumstances.

- **You Don't Get the Tax Credit Right Away** – While manufacturers may advertise it as a discount on the car's price, it isn't. It is a government policy that allows you to claim up to $7,500 in credit against federal income taxes you owe in the year in which you buy the car. In other words, it reduces your tax liability. If you're eligible for a refund, you'll get whatever credit you're entitled to on top of that. Buyers still must pay the full price they negotiate for the car, and then they can claim the credit the next time they file their taxes.
- **It Applies Only to New-Car Sales, and It Doesn't Apply to Leased Vehicles** – If you're leasing a new EV, the tax credit will go to the manufacturer offering you the lease. However, they may choose to apply that credit to help lower your monthly payments, which is a good point for you to bring up in negotiations.
- **It Applies to EV, Plug-in Hybrid, and Fuel Cell Vehicles** – The law states

that the credit applies to road-going vehicles that are charged from an external source and have battery packs with 4 kilowatt-hours or greater. The U.S. Department of Energy maintains a list of vehicles that qualify for the tax credit and the amount buyers could deduct for them.

- **Some Electric Cars are No Longer Eligible** – The full credit is available on the first 200,000 vehicles a manufacturer builds; beyond that, the credit begins to sunset. Currently, two manufacturers have completely exhausted their available credit: Tesla and General Motors.
- **It May Change This Year** – The federal government's EV tax credit program may change dramatically in 2021, and currently there are a few different proposals working their way through Congress. If you're able to wait and don't need to buy an EV soon, it could be worth letting these bills get settled before you buy. With more EVs coming to market and manufacturers lobbying for assistance to ensure their EV bets pay off, chances are that something may happen to make EV tax incentives dramatically better for new-car buyers this year.

State and Local Incentives Could Be Available; Your Electric Utility Company May Help

While the federal government's effort toward EV discounts is largest, some states and local governments have incentive programs to help new-car buyers afford a more efficient vehicle. These can be things like tax credits, rebates, reduced vehicle taxes, single-occupant carpool-lane access stickers, and exemptions from registration or inspection fees. The U.S. Department of Energy maintains an interactive list of state-level incentives. In addition, some local electric utilities have incentive programs to help buyers get into electric vehicles, like rebates or discounted electric rates for charging an EV outside peak hours. It's worth checking with your electric utility to see what incentives they may offer if you're considering buying an EV.

Additional EV Information and Consumer Advice
The editors at Kelley Blue Book also have created several articles with consumer advice and information about EVs to help shoppers navigate the evolving electric car landscape:

- How Much Does It Cost to Charge an Electric Car?
- How Long Does It Take to Charge an Electric Car?
- 5 Fastest-Charging Electric Cars
- An EV Charger Buying Guide: See All Your Options
- Electric Car Range – Everything You Need to Know
- 10 Longest-Range Electric Cars
- Does it Cost More for Electric Car Insurance?
- Evaluating EV Facts over EV Hype
- 10 Things to Know Before Buying a Used Electric Car

For more information from Kelley Blue Book about electric cars, EV tax credits and more, visit https://www.kbb.com/car-advice/how-do-electric-car-tax-credits-work/.

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For further information: Brenna Buehler, 949-473-6595, brenna.buehler@coxautoinc.com

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