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This policy brief explains how the Clean Vehicle Tax Credit in the Inflation Reduction Act (IRA) works and evaluates it from an industrial policy perspective. The Clean Vehicle credit for consumer EV purchases creates large financial incentives for friendshoring of EV supply chains -- or locating supply chains in allied countries.

Consumer Reports" Electric Vehicle Savings Finder highlights local and federal incentives and tax rebates, based on your ZIP code and the model you"re researching.

electric vehicle subsidies under the Inflation Reduction Act Chad P. Bown July 2023 ABSTRACT South Korea felt "betrayed" when President Biden signed his administration"s flagship climate legislation, the Inflation Reduction Act (IRA) of 2022, into law. This paper first shows how the Biden administration addressed Korea"s concerns

Here Is the EPA"s List of EVs Eligible for the Federal Tax Credit. We"ve gathered every new EV that"s currently eligible to earn either the partial $3750 or the full $7500 federal tax credit....

The Clean Vehicle (or EV) Tax Credit in the Inflation Reduction Act is a prime example of the U.S."s return to industrial policy. This policy brief explains how the Clean Vehicle Tax Credit in the Inflation Reduction Act (IRA) works and evaluates it from an industrial policy perspective.

The Clean Vehicle credit for consumer EV purchases creates large financial incentives for friendshoring of EV supply chains -- or locating supply chains in allied countries. Such arrangements are designed to prevent or alleviate U.S. industry"s dependence on China for essential inputs.

To be eligible, vehicles must be assembled in North America. And certain vehicle components needed to build them must be substantially friendshored, with percentages that escalate each year. Raw critical minerals used in EVs must come from North America or free trade agreement partners. And manufactured battery components must come from North America. Any critical minerals or battery components from China, Russia, or other "foreign entities of concern" will disqualify a vehicle from eligibility, starting in 2024 for battery content and in 2025 for critical minerals.

While these consumer EV purchase provisions are controversial among U.S. allies, the IRA contains a large loophole. The commercial EV tax credit can subsidize retail leases of EVs and plug-in hybrids without any of the origin requirements or the income and price caps of the tax credit for consumer purchases.

White House National Security Advisor Jake Sullivan articulated the Biden administration"s industrial policy in an April 27 speech at the Brookings Institution. That the National Security Advisor, and not an economic official, defined the new industrial policy underscores the importance of national security to it. His speech laid out three key criteria an industry must meet for support under the new policy: It must be economically critically important; it must have national security implications; and private investment alone in that industry is likely to fall short and catalyze less near-term growth than the administration sees as necessary to achieve the growth and national security goals.

Based on Sullivan"s speech, if old industrial policy focused on picking winners, new industrial policy would target must-win industries--arguably still picking winners. National security arguments are also not novel. Both go against the economic wisdom of the last era of U.S. industrial policy, in the early 1980s. In a 1983 Journal of Economic Literature review, "Industrial Policy and American Renewal," R.D. Norton wrote, "In sum, the economic arguments against an American industrial policy are persuasive. The national-security case for a program of sectoral intervention is weak.... The microeconomic or market-failure rationale fails also...."[1]

Yet, the U.S. is not alone in resuscitating industrial policy. Despite outraged reactions to the IRA from U.S. allies, China and the EU introduced major industrial policies before the IRA or the CHIPS Act. That included China"s spectrum of policies to boost domestic EV and battery production,[2] and the EU"s Green New Deal. Arguably, the U.S."s return to industrial policy began with the Trump administration"s tariffs on steel, aluminum, and imports from China. The U.S. also waded into national security- related industrial policy with bans barring the import of Huawei equipment and the export to China of chips with potential defense uses.

The IRA replaces the longstanding EV tax credit for consumers buying battery electric vehicle (EV) and hybrid vehicles with three new Clean Vehicle tax credits: an extended and revised credit for consumer purchases of EV and plug-in hybrid electric vehicle (PHEV) purchases; a credit for commercial PHEV and EV purchases; and a credit for the sale of a used EV or PHEV.[3] Only the consumer purchase tax credit (known as 30D for its location in the tax code) comes with the origin requirements and makes Chinese battery or critical mineral content an outright disqualifier.