WHY NEW ELECTRIC VEHICLE TAX CREDITS COULD CONFUSE AND DIVIDE CONSUMERS

Auto dealers face a complicated task–and partisan divide–in explaining new electric vehicle incentives from the Inflation Reduction Act. Here's how they can address the challenge.

An Ipsos Point of View

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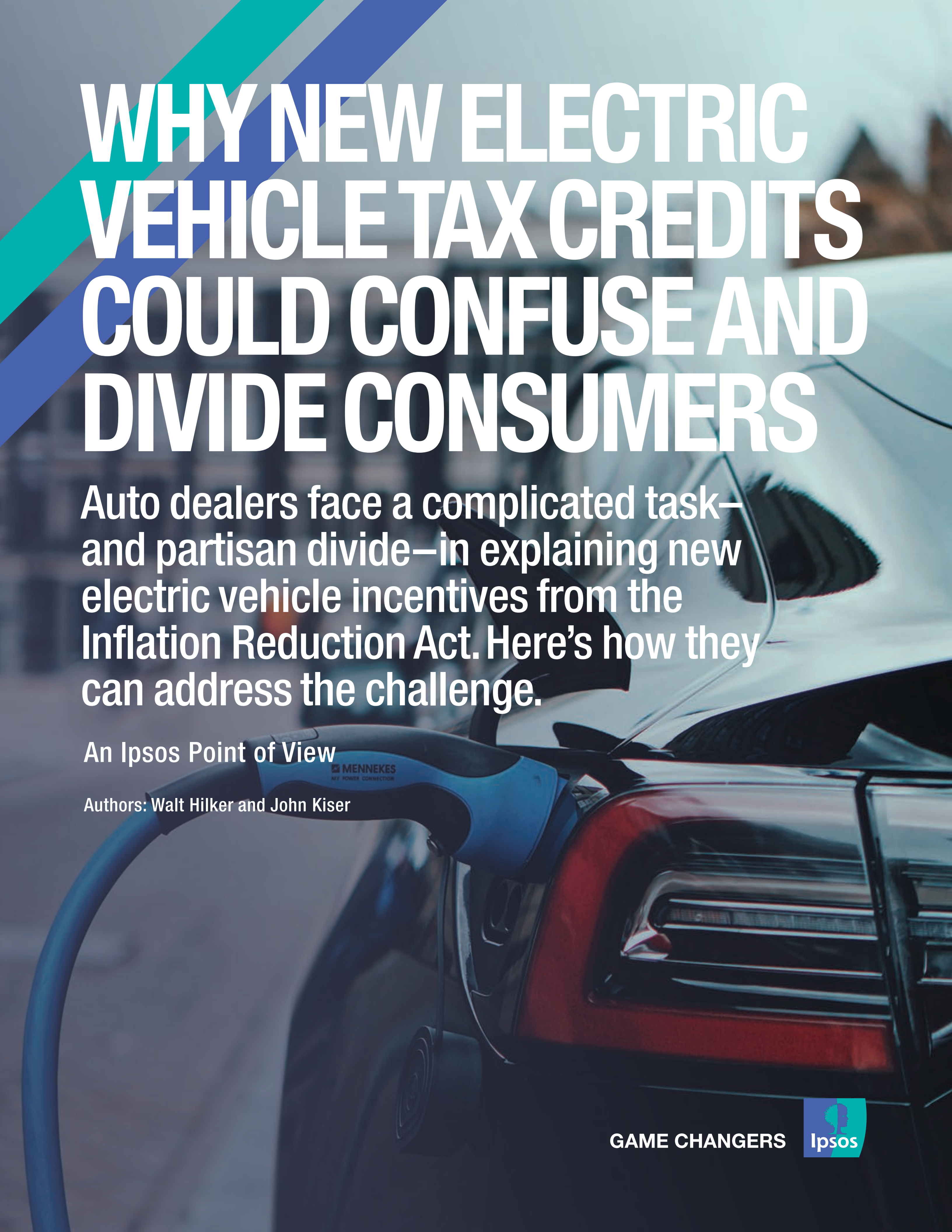


GAME CHANGERS Ipsos

KEY FINDINGS:

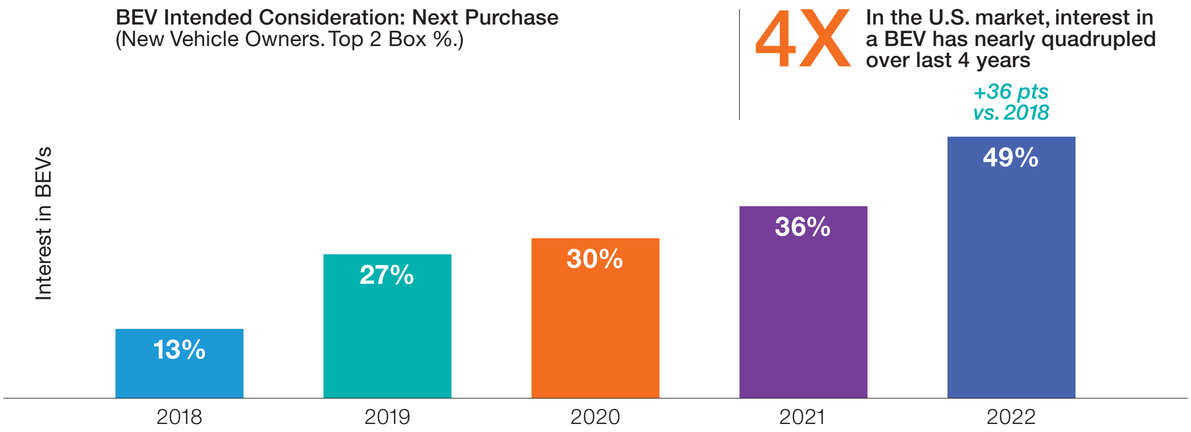
- The Inflation Reduction Act introduces more confusion that will likely dampen the benefits of its electric vehicle incentives, as stipulations attached to its incentives further complicate things for consumers.
- Automakers and dealers should highlight specific vehicles in inventory that qualify for incentives. Consumers should not have to determine on their own which models do or don't qualify.
- Further, to maximize electric vehicle appeal, automakers and dealers should steer clear of today's political divide as best as possible, speaking to electric vehicles' myriad consumer advantages instead of those benefits that could be construed as partisan.

Like the torque for which battery electric vehicles are famous, the battery electric vehicle market is poised to accelerate rapidly. More and more U.S. automotive consumers are intrigued by electric vehicle ownership. But while consumers evaluate electric vehicles for themselves, Washington has potentially hit the brakes on electric vehicle incentives.

Electric vehicle consideration accelerates

The last five years of data from the Ipsos Mobility Navigator survey demonstrates accelerating American consumer interest in electric vehicles, growing nearly fourfold in as many years.

Overall, BEV consideration in the U.S. jumped to almost 50% in 2022!



2018 – 2022 Mobility Navigator Study – Module 1 – Electrification

Increasingly, consumers view driving an electric vehicle not only as the future of mobility—they also see it as the right thing to do, to serve the greater good. However, those whose last vehicle purchase was an electric vehicle say they bought them not only to be socially more responsible, but also to please themselves. The biggest reason to consider an electric vehicle, according to their buyers: Simply put, *they like their electric vehicles.* No matter the type of vehicle, satisfying the wants and needs of the automotive consumer remains job one for vehicle-makers.

New government incentives are likely to confuse consumers

In this landscape, government incentives seem like a good idea. Incentives have long been effective at making innovative, premium-priced electrified models more affordable and encouraging their adoption, starting with the first hybrids.

Intended to meet that opportunity, along comes the Inflation Reduction Act (IRA), which hopes to make electric vehicles more affordable with new and different tax credits. But IRA's electric vehicle incentives bring a tangle of stipulations that further complicate things. Which vehicles and brands that didn't qualify for a tax credit before now do? Which vehicles and brands don't qualify any more?

First, only electric vehicles that are assembled in North America are eligible for tax credits under the new law—which immediately cut the number of new vehicles eligible by about 70%, according to the Alliance for Automotive Innovation. Today, the U.S. Department of Energy lists only 25 new vehicle models that could be eligible for the tax credits.

Additional requirements phasing in down the road would make supply chain requirements even more stringent—including a requirement that a certain amount of materials in the vehicles' batteries be sourced from North America. And electric vehicles that cost more than $80,000—a significant portion of the market—will no longer be eligible for tax credits.

However, the law also eased restrictions in other ways. The previous law on EV tax credits limited the number of vehicles a manufacturer could sell before their customers lost access to the tax credits—a restriction eliminated by the Inflation Reduction Act's new rules. That means vehicles sold by General Motors and Tesla can once again eligible for a tax incentive. And used electric vehicles are now eligible for a tax credit for the first time, as well.

The overall result of all these changes: The new incentive program adds more confusion to already overwhelmed consumers, and weakens their effectiveness.

Simplify incentives for the electric vehicle shopper

Electric vehicle shoppers should not have to determine on their own which models do or don't qualify under IRA's new set of incentives. The Alliance for Automotive Innovation seems to agree: it recently recommended to the US Treasury that it create a centralized portal where consumers can access that information. But unless and until such a portal emerges as a consumer-friendly, reliable, and timely tool, vehicle-makers and dealers should prepare to fulfill that need themselves, by highlighting specific vehicles in their product portfolio and dealers' inventory that qualify for IRA incentives—then provide individual shoppers the direction they need to see if they qualify (e.g., income threshold).

One idea for dealers: Highlight specific incentive-qualifying models in a dealer's inventory with such simple but eye-catching tools as a green-star icon online, and a similar vehicle cling on the lot.

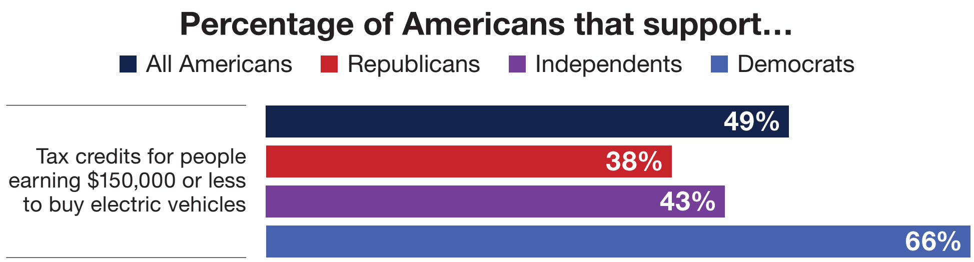
The challenge remains, however, to find a motivation for dealers to encourage consumers to adopt electric vehicles, when they are expected to be less profitable for dealers over the long haul than internal combustion engine vehicles. Higher transaction prices, potentially buoyed by incentive money, could make an electric vehicle sale more profitable than a discounted ICE model today. Longer term questions related to servicing needs remain.

IRA feeds the partisan divide

Confusion can weaken the efficacy of incentives. So can political polarization.

Since its inception, electrification in its varied forms has been the powertrain of choice for Blue America, while internal combustion engines have been preferred powertrains for Red America. No matter its intentions, a partisan bill from Washington that incentivizes electric vehicle purchases in today's heated political landscape will, we expect, reflect—and potentially fuel—that polarization.

About half Americans surveyed in a Reuters/Ipsos poll from August 2022 support the Inflation Reduction Act's electric vehicle tax credit—but compared to other provisions in the bill, that level of support ranks at the bottom (along with its provision to increase funding for IRS tax enforcement). Specifically, support for the EV tax credit finds more favor among Democrats, while Republicans and independents unite in comparatively more opposition.



Source: Reuters/Ipsos poll, conducted August 3–4, 2022.
Base: All respondents (n=1,100), Democrats (n=386), Republicans (n=323), Independents (n=391)

Focus on the customer's needs and wants—not politics

To maximize electric vehicle appeal, vehicle-makers and dealers should therefore steer clear of the political divide as best as possible, speaking to the myriad consumer advantages of an electric vehicle instead of those benefits that could be construed as partisan: Focus on the consumer's needs, not his or her politics. As Michael Jordan once remarked, "Republicans buy sneakers, too."

WHAT'S NEXT:

- Like the torque for which battery electric vehicles are famous, electric vehicle market acceptance is poised to accelerate rapidly.
- There is a lot to like about electric vehicles for their social benefits. Electric vehicle buyers further attest to personal conveniences along with the satisfaction of serving the greater good.
- But the major lifestyle shift from an internal combustion engine (ICE) to an electric vehicle strikes many others as confusing and overwhelming, which has kept them from considering an electric vehicle to-date.

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