Small Business Dealers Need Time to Manage Current EV Inventory
Congress Should Include a "Phase Out" Period if EV Tax Credits Are Repealed

ISSUE

President Trump and Republican leaders in Congress have stated they intend to eliminate or significantly reduce tax incentives for electric vehicles (EVs) that were enacted during the Biden administration. However, dealers have purchased and are paying floorplan interest on nearly $7.7 billion in EV inventory that is still on their lots. **If EV tax credits are repealed, it should happen with a "phase out" to allow dealers time to reduce the gap between their current high EV stock, caused by the government's aggressive EV mandate, and slow consumer demand.**

BACKGROUND

To boost EV demand, the Inflation Reduction Act of 2022 included tax incentives for certain new EVs (Sec. 30D), leased (Sec. 45W) and used (Sec. 25E). Congress enacted these incentives in anticipation of new EV mandates, which were finalized in 2024. The EPA's EV mandate could effectively require that the light-duty fleet be 56% EV by 2032. Additionally, in January, the EPA granted a waiver to California that mandates 100% new zero emission vehicle sales by 2035 in 9 states. The granting of this waiver would regulate out of existence gas-powered and traditional hybrid vehicles.

Dealers have promoted electrification of America's fleet, with billions of dollars of their own capital already committed to investments in facilities, training and inventory. However, even with tax incentives of up to $7,500 per vehicle, EVs are currently only 8.1% of the new car market.

The primary reasons for sluggish EV growth and consumer hesitancy are: 1) the average transaction price for an EV is $59,205, which is almost $11,000 more than a gas-powered vehicle; 2) an inadequate charging infrastructure (by 2030 nearly 1.2 million public chargers and 20 million private chargers will be needed to charge the number of EVs required by EPA's mandate); 3) long charging times (most public chargers take 4-10 hours to charge); and 4) the average price of gasoline is around $3 a gallon.

A reasonable "phase out" period for EV tax credits would allow franchised dealers to sell the oversupply of EVs on their lots, while reducing economic disruption and consumer confusion.

KEY POINTS

- **The federal government set an overly aggressive EV mandate that is far ahead of consumer demand and affordability.** Dealers cannot force consumers to buy EVs especially since are they are generally $11,000 more expensive than gas-powered cars. EV tax credits have helped make EVs more affordable, which is crucial given high EV inventory and low consumer demand.

- **Dealers are carrying high EV inventory costs due to EV mandates.** Dealers pay daily floorplan interest charges on unsold EVs and currently have 140,000 EVs on their lots. For the first three quarters of 2024, the average days' inventory for EVs on dealer lots was 129 days, compared to 89 days for gas-powered vehicles. According to Kelley Blue Book a 60-day supply is considered a healthy balance. This allows dealerships to have enough vehicles on hand to meet demand without overstocking.

- **A reasonable transition period to phase out the EV credit is needed because it allows consumers and small businesses time to make informed decisions and adjust to new rules.** An abrupt repeal of EV tax credits would disrupt the car market and cause unnecessary consumer confusion.

STATUS

President Trump and congressional Republican leaders have stated that they will repeal EV credits as a part of the renewal of the 2017 tax bill.

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