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Reduction Act.

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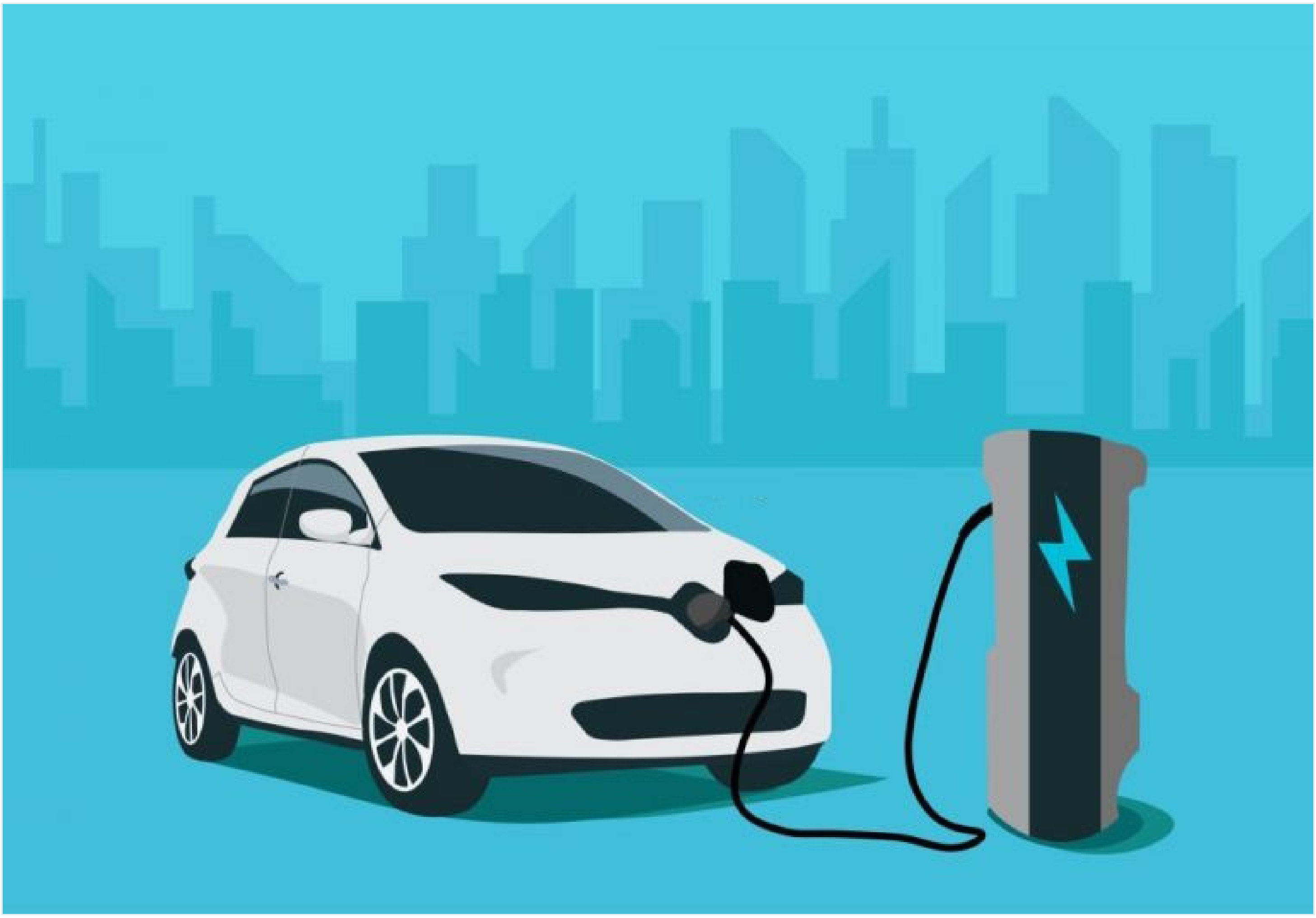

By Breana Noble, Kalea Hall and Jordyn Grzelewski, The Detroit News (TNS)

Consumers who can find an electric vehicle or plug-in hybrid that qualifies for the $7,500 tax credit now may want to snap it up before the end of the year, experts say, while others wanting to purchase EVs that aren't eligible might be better off waiting until 2023.

Qualification requirements change in January following passage of legislation

The industry is awaiting more guidance from the U.S. Treasury Department before the end of the year to determine which exact models will qualify as global automakers from Detroit and Wolfsburg to Tokyo and Shanghai quicken their pivot to electric vehicles. The Internal Revenue Service is currently seeking comment from stakeholders on that.

General Motors Co. stands to benefit the most among the Detroit Three since its electric vehicles like the Chevrolet Bolt don't qualify for the current subsidy after the company hit its cap in 2019, the second automaker after Tesla Inc. to do so. Ford Motor Co. and Stellantis NV say their vehicles are eligible for the existing tax credit through the end of the year. Forecasters have predicted Ford could hit the 200,000 cap this year, but if that were to happen, there is a ramp down period under which buyers still would receive the credit in the final months of 2022.

"For consumers who are looking for a vehicle that qualifies for the credit now, by all means, if you can get a hold of the vehicle, buy it," said Chris Harto, senior policy analyst for transportation and energy at Consumer Reports. "For people considering Tesla or a GM vehicle where they weren't getting the credit but might get the credit next year, certainly in those cases, it makes sense to wait. Even if they don't end up qualifying, they're no worse off, because they don't qualify now either."

Detroit's three automakers are betting tens of billions of dollars on electrification and that customers will make the switch. They've hailed the new legislation as leveling the playing field in the EV race and a show by the U.S. government, a laggard in carbon emissions regulation compared to Europe and China, to support the move to zero-emission transportation. But incentives still are needed to help with the price difference between EVs and internal combustion engine vehicles to woo buyers as supply chains, particularly domestic ones, are built out.

“We’re really ramping up production of these vehicles, but the supply chain doesn’t

which requirements they meet, Harto said.

Even then, buyers right now still are early adopters, said Stephanie Brinley, principal autos analyst for S&P Global Mobility. It’s unclear how much of a difference an incentive offering will make a customer switch brands.

“This is really to help the automakers,” she said, “because that helps them to be able to carry a price point that they can be profitable at if consumers aren’t able to step up to the plate.”

Under the new legislation, an EV qualifies for a $3,750 tax credit if at least 40% of the battery’s critical minerals were extracted or processed in the United States or in a country with which the U.S. has a free trade agreement. The other half is granted if at least 50% of the battery’s components were manufactured or assembled in North America. Those percentage requirements increase over time. The credit is applied as a point-of-sale discount.

Vans, SUVs and pickups have to cost less than $80,000 and sedans less than $55,000 to qualify. Only joint tax filers making less than $300,000 and single filers making less than $150,000 will be eligible. The new rules also provide up to a $4,000 tax credit for used vehicles. There also are incentives for commercial vehicle buyers and for manufacturers of EVs and their components in North America. The subsidies expire in 2032.

Automaker expectations

GM CEO Mary Barra last week said she expects some vehicles will be eligible for a $3,750 credit starting in January. The Detroit automaker believes it’ll have vehicles well-positioned to qualify for the tax credit for North American manufacturing and assembly, not the critical minerals requirement, spokeswoman Jeannine Ginivian said in an email. After that, the automaker intends to ramp up toward full eligibility

call. "Over the 10-year life cycle of the credit, we will offer a number of models in the segments and price ranges that will be eligible for the full $7,500 credit, and for us, many of these are going to be high-volume entries."

Ford CEO Jim Farley last week said the Dearborn automaker expects certain Mustang Mach-E SUVs and the F-150 Lightning trucks will meet the $3,750 critical materials credit requirement, though he noted in 2024, there will be stricter requirements. He didn't mention the battery assembly and manufacturing requirement.

"We expect the U.S. Inflation Reduction Act to have a wide range of positive impacts, for both our customers and for Ford," he said on the third-quarter earnings call. "It's not yet clear as to the degree the IRA will drive customer demand, versus offsetting our EV investments and growth."

Stellantis—the maker of Jeep, Dodge, Chrysler, Ram, Fiat, Alfa Romeo and Maserati —doesn't have available any full EVs in the United States at present, but its U.S. brands are preparing retail launches starting in 2024. Stellantis CEO Carlos Tavares said in September during the Detroit auto show that the automaker has everything it needs for consumers to qualify for the new IRA requirements, though he didn't specify how much or which. The automaker is working with the administration and its battery suppliers to ensure it's as eligible as possible for the new credit.

"We feel good about it," Tavares said, "because most of our products, if not all, are going to qualify. We have everything we need."

Jeep and Chrysler do have plug-in hybrids on sale, and Alfa Romeo and Dodge are each introducing an offering soon. The Chrysler Pacifica Hybrid minivan will qualify fully next year for the full $7,500 credit, CEO Chris Feuell said at the auto show, adding that if the requirements of the IRA are unchanged, Chrysler's future EV that will launch in 2025 would be eligible, as well.

The new Dodge Hornet R/T and Alfa Romeo Tonale plug-in hybrids, however, are

All three automakers are working to secure supplies of lithium and other needed minerals for EV batteries. GM earlier this year announced new supply agreements with LG Chem Ltd. and Livent Corp. that it said would help secure all of the raw materials it needs for EV batteries to meet a 2025 goal of having 1 million units of annual EV capacity in North America. Most recently, in October the Detroit automaker said it secured a new source of nickel and cobalt for its Ultium battery cells by investing up to $69 million in Australian minerals exploration company Queensland Pacific Metals.

In July, Ford executives detailed several deals the company reached to shore up raw materials for battery production as it announced that the automaker had secured 100% of the battery capacity it needs to hit annual EV production capacity of 600,000 units by the end of next year.

Stellantis this year has inked deals with Vulcan Energy and Controlled Thermal Resources for supplies of lithium hydroxide for Europe and North America, respectively. Last month it also made an agreement with GME Resources Limited, which owns a nickel and cobalt project in western Australia.

Automakers will have to put in place measures to track from where these materials are coming and to which vehicles they are going, said Mike Ramsey, a vice president and analyst at advisory company Gartner Inc.

"It's pretty unclear how this is going to play out in real life, how the companies are going to verify this, how far in advance they will know if sourcing changes," he said. "Commodities come from all over the place. There are probably going to be new metrics and tracking and tracing to ensure they are living up to the rules."

Other IRA benefits

GM and Ford emphasized other benefits of the IRA. Those include tax credits of up to

vehicle buyers will qualify. Barra said the credit will benefit its BrightDrop commercial business. The Ram ProMaster commercial van will be the first EV from Stellantis’ U.S. brands next year.

“There is potential for commercial vehicles to see some incentive,” Brinley said. “That hasn’t really happened before. That is an opportunity. It could be impactful over time.”

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