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"I can't imagine that dealers are prepared to untangle this."
Loren McDonald, CEO, EVAdoption

AUTOMOTIVE NEWS ILLUSTRATION

'TOTALLY CONFUSED'

EV tax credits present more questions than answers for dealers

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WASHINGTON — The U.S. Treasury Department's attempt last month to clear up confusion on the Inflation Reduction Act's revised $7,500 tax credit for new electric vehicles has instead stirred up more questions than answers for car dealers seeking to better understand its maze of rules and timelines.

With new restrictions on sticker price and buyer income taking effect this month, several dealers told *Automotive News* that more guidance is still needed from the federal government and automakers to accurately and confidently assess vehicle and consumer eligibility.


Luciano: Employees are telling customers, "I don't know."

Adding to the confusion, Treasury missed its year-end deadline for issuing proposed guidance on the tax credit's critical mineral and battery component requirements. Instead, the department said it will issue the guidance — and proposed rulemaking that further clarifies key provisions already in play, such as price caps and how vehicles are classified — in March.


DeSilva: We can't issue guidance.

The delay has left dealers, automakers and consumers with an incomplete rule book for navigating the

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Worst of inventory shortage behind us?

Low incentives, higher interest rates build stocks

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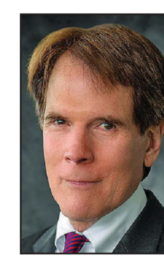
If you're a dealer who had a once-in-a-lifetime opportunity to reseal, resurface or restripe your new-vehicle sales lot with the least amount of hassle, you might be out of luck.

New-vehicle inventories are starting to build again — and relatively quickly — thanks to a combination of low incentives and higher interest rates that have kept millions of potential buyers on the sidelines. While assembly plants still face supply chain challenges, there are signs of recovery. For instance, North American production rose 12 percent in 2022 to 14.7 million vehicles. (See table, Page 31.)


Gates: Floorplan beats no cars

U.S. vehicle inventory rose sharply in December, topping 1.8 million for the first time since May 2021, according to data compiled by Cox Automotive and the Automotive News Research & Data Center, and it was up nearly two-thirds from where it stood a year earlier.

Not all brands or segments are building at the same rate, and overall consumer demand remains strong, auto executives say. Still, on a macro level, once-empty dealership lots are starting to fill again.

Cox put its latest industrywide inventory estimate at 1,803,717, representing a 58-day supply, based on the selling rate from the most recent 30-day period. The top-line inventory and days' supply figures represented year-over-year growth of about 65 percent and were approaching what the industry previously considered normal levels,

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U.S.-made EVs are dominating the market

New tax credits will accelerate the trend

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Electric vehicles built in the U.S. are dominating the domestic EV market, according to new-vehicle registration data from Experian, and the trend is likely to accelerate, given new tax incentives for EV and battery production in North America.

U.S.-made EVs accounted for about 75 percent of new-vehicle registrations in the first 11 months of last year, the most up-to-date Experian data shows, and U.S. automakers were responsible for nearly all of that production. The main exception was Nissan, with its Tennessee-built Leaf holding a 1.7 percent EV market share.

The trend, driven by Tesla, General Motors and EV startups such as Rivian, is good news for U.S. manufacturers and supply chains as the global auto market goes electric over the coming decade, analysts say.

The Inflation Reduction Act, signed into law last year, ended the $7,500 EV credit for vehicles made outside North America. The previous tax credit was available to all EVs regardless of country of origin.

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Ford, maker of the F-150 Lightning, was second in EV registrations.

NEWSPAPER

CREDITS

More guidance from feds, automakers is needed

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complex — and "increasingly overwhelming," as one analyst put it — federal tax incentives for at least a two-month period.

"We're totally confused," said John Luciano, owner of Street Volkswagen in Amarillo, Texas.

Luciano said employees at his store are being cautious, in some cases telling customers who are seeking answers about the credit and their eligibility, "I don't know."

"It's not always the best answer, but it's an honest answer," he told *Automotive News*. "We're too afraid of getting it wrong."

Between now and at least March, some dealers have opted to take a more hands-off approach, explaining the credit's intricacies to the best of their knowledge but steering customers to federal government websites and tax professionals to determine credit eligibility.

"Right now, it's good that it's not a point-of-sale credit," said Mike DeSilva, owner of Liberty Auto Group, which has three stores in New Jersey and sells vehicles from Genesis, Hyundai, Kia and Subaru.

"What we're telling any of our customers that are buying EVs that inquire about it is just to inquire with their own tax accountants ... because we can't issue guidance on whether or not they qualify for the credit," he said. "We just don't have the answers."

Dealers selling EVs to consumers seeking to use the credit must provide a report to the buyer on the date the vehicle is purchased and to the IRS within 15 days after the end of the calendar year it was sold, according to Treasury. The reports include taxpayer identification numbers and the maximum credit allowable for the vehicle.

Carl Scharf, tax shareholder in Schneider Downs' automotive advisory group, said his firm is getting more questions from clients, which include large, multistate dealership groups and single-point stores.

"But with the delay, what you're seeing is ... a lot of the manufacturers have delayed the training as well, sales folks training," he said.

More complexity

On Dec. 29, Treasury and the IRS released preliminary rules that could be further revised come March. The documents include a 10-page FAQ, an updated list of potentially eligible EVs and a notice on the expected content of the forthcoming proposed guidance and regulations.

The information provided dealers with more clarity on what's counted in the retail price, specifying that "optional equipment physically attached to the vehicle at the time of delivery to the dealer" is included, while optional items added by the dealer as well as destination charges, taxes and fees are not.

It also clarified the term "placed in service," meaning the date the customer takes delivery of the EV.

However, that means eligibility could change between the time an order is placed and the vehicle is delivered — adding yet another layer of complexity for dealers, automakers and consumers trying to figure out what's eligible and until when.

Vehicles ordered or purchased by consumers this month, for instance, could be subject to the tax credit's EV battery sourcing restrictions if they are delivered after Treasury issues the proposed guidance.

"You may not get the credit that you were otherwise expecting," said Buddy Dearman, national industry leader for the dealerships practice at Forvis LLP.

"The dealer will have to be doing some educating of the consumer to make sure that they understand."

Loren McDonald, CEO of the analysis and consulting firm EVAdoption, said the information may cause some consumers to postpone their purchases.

"I subscribe to the old theory that consumers, when faced with complexity, choose simplicity," he said. "At the end of the day, they might just choose a lower-cost [internal combustion engine] vehicle or hybrid ... because it's an easier decision."

Scharf: Training is delayed.

McDonald said dealers — some of whom may be struggling to explain and sell EVs to customers even without a tax credit heavy with caveats — need more training to understand the incentives.

"It's such a massive tangled web," he said. "I can't imagine that dealers are prepared to untangle this."

Classifying vehicles

Dearman: Not the credit expected

Treasury and the IRS sought to help consumers with a new list of vehicles that may be eligible as of Jan. 1 or later. However, the list has raised concerns over how the vehicles are being classified.

Treasury did not classify the Cadillac Lyriq as an SUV, for example, meaning its retail price cannot exceed $55,000. The Lyriq, which *Automotive News* classifies as a midsize crossover, starts at $62,990.

McDonald: Choose simplicity.

The department used corporate average fuel economy, or CAFE standards, "which are preexisting — and long-standing — EPA regulations that manufacturers are very familiar with," a Treasury spokesperson said. "These standards offer clear criteria for delineating between cars and SUVs."

General Motors said it is addressing these concerns with Treasury and hopes that "forthcoming guidance on vehicle classifications will provide the needed clarity to consumers and dealers, as well as regulators and manufacturers."

Stanton: Going to be a challenge

The Alliance for Automotive Innovation, which represents GM and other major auto companies, said automakers should self-certify to Treasury what classification a vehicle is marketed as, according to comments submitted to the department in November.

"There's a great many that are in the 'other' classification, and that's largely due to crossovers and SUVs causing a little bit of consternation about how they're going to ultimately be viewed by the government," said John O'Donnell, CEO of the Washington Area New Automobile Dealers Association, adding that he's "very optimistic" many of the vehicles will end up with a "favorable" classification.

Meanwhile, Cadillac dealers such as Inder Dosanjh said customers interested in buying the Lyriq are frustrated.

"Sometimes customers think we're making this stuff up and then we have to take them to the IRS website and show it to them," said Dosanjh, CEO of Dosanjh Family Auto Group. "We're spending a lot of time explaining to customers why Treasury thinks it's a car, not an SUV."

More leasing

One bright spot — especially for dealers selling international brands, such as Hyundai Motor Group, that do not yet have North American EV assembly operations — could be in the commercial clean vehicle credit, known as 45W.

Treasury, in its Dec. 29 release of preliminary information, said EVs leased by consumers could qualify for the credit, which is not subject to the same eligibility restrictions as the tax credit for consumers buying new EVs, known as 30D.

The credit is limited to $7,500 for vehicles weighing less than 14,000 pounds, and $40,000 for all other vehicles.

While the credit does not transfer directly to the consumer or lessee, it could be used by the lessor, or leasing entity, to lower lease prices, several dealers and tax experts said.

The alliance and the National Automobile Dealers Association have applauded the department's guidance on 45W.

"We don't know what the lessors are going to do, but it's a competitive market," said NADA CEO Mike Stanton, noting that he expects to see a much higher penetration of leasing than if the program were structured differently.

Hyundai Capital America, the captive finance partner of Hyundai, Kia and Genesis brands, deferred comment to the automaker when asked whether it plans to pass along part or all of the credit to consumers for leases. In a statement, Hyundai said tax credits for EV leases are a "positive development for the entire auto industry and for the broader adoption of EVs."

Ford Motor Co.'s financial services arm, Ford Credit, said it is eligible to claim the tax credit on qualifying EVs that it owns and leases to customers.

"Tax credits are included in the mix of factors we consider as we work with Ford to plan marketing programs and other incentives," Ford Credit spokesperson Margaret Mellott said. "This allows the tax credits to be used in a variety of ways to support customers and vehicle sales over time. However, these are competitive decisions that we won't discuss publicly."

'Opposing the goals'

In the meantime, dealer associations and tax professionals continue to field questions and concerns as they await Treasury's release of more information in March.

"The implementation strategy is currently nothing short of a mess, effectively opposing the goals of the legislation in many instances," said Zach Doran, president of the Ohio Automobile Dealers Association. "They've made the rules and regulations incredibly confusing for both dealers and consumers alike. I'd liken it to handing Olympic champion Michael Johnson his gold shoes and then tying a piano to his back."

Doran said his group will continue to advocate alongside NADA and help dealers through the process.

NADA, which has set up a virtual hub on its website to regularly update and educate dealers, is urging the administration to establish a VIN-based verification system that will easily determine vehicle eligibility, especially once EV battery sourcing rules take effect.

A VIN decoder available through NHTSA can only verify where the vehicle was built.

"It needs to be simple. No one can be left guessing. Type in 17 digits and get a 'yes or no, this vehicle is eligible,'" Stanton said.

"Until that happens, it's just going to be a challenge." AN

What took effect Jan. 1

Until the day after the U.S. Treasury Department issues proposed guidance on the critical mineral and battery component requirements, eligible vehicles may qualify for a tax credit between $3,751 and $7,500 depending on the battery capacity. Other rules that apply:

- Vehicle's final assembly must be in North America.
- Manufacturer's suggested retail price cannot exceed $80,000 for vans, SUVs and pickups; $55,000 for "other" vehicle types.
- A buyer's modified adjusted gross income cannot exceed $300,000 for joint filers, $225,000 for a head of household or $150,000 for all other taxpayers.
- Vehicle must have a gross vehicle weight rating of less than 14,000 lbs.
- Vehicle must be powered to "a significant extent" by an electric motor with a battery capacity of 7 kWh or more, and must be capable of being recharged from an external source of electricity.
- Vehicle must be made primarily for use on roads and highways and have at least 4 wheels.

Still to come

Critical mineral and battery component requirements will take effect the day after the U.S. Treasury Department issues the proposed guidance, which is expected in March.

- Once the proposed guidance is issued, the $7,500 credit will be split into 2 halves: $3,750 if the battery contains at least 40% critical minerals that were extracted or processed in the U.S. or in a country where the U.S. has a free-trade agreement in effect, or from materials that were recycled in North America; and another $3,750 if at least 50% of the battery components were made or assembled in North America. Those percentage requirements rise annually.
- Starting in 2024, the tax credit can be transferred to the dealer at the point of sale.

Source: U.S. Treasury Department, IRS

LINCOLN

Dealers see value in early preparation

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The Lincoln program will run from late 2024 until 2026. Another enrollment period will open near the end of 2026 for a program that starts in 2027.

Lincoln does not sell any EVs but has promised to launch three globally by 2025 and add a fourth in 2026. Executives say they expect almost 90 percent of Lincoln's volume in North America to be electric by 2030.

Chris Poulos, chairman of the Lincoln National Dealer Council, told *Automotive News* the timing of the announcement makes sense.

"If you start the process too late, and then there's delays, you're stuck and in a bad place," said Poulos, who is general manager of West Point Lincoln in Houston. "I do think there's some thoughtfulness that's gone into the timing. It does seem like it's early, but I also can understand what the pitfalls would be if they don't start early."

Joe Hay, president of Jim Burke Ford-Lincoln in Bakersfield, Calif., said opting into the Lincoln program was a "logical decision" for his store. He also enrolled in the top tier of Ford's program, which requires an investment of as much as $1.2 million.

"As a West Coast dealer, I see this as the price of entry," he said. "I don't know how you could be successful in the retail environment we find ourselves in in California without being in the EV business."

While much of the cost is expected to go toward charging infrastructure, Hay said the certification program also includes necessary training for dealership employees.

"The ensuing two years we have gives us the time necessary not just to get the infrastructure right, but to get our teams trained, educated and ready to speak EV fluently," Hay said. "A lot of the people we're hoping to get to look at a Lincoln EV probably have owned Teslas and are looking for something different, new and exciting. They're experienced. We have to be able to really take the next two years to gain a lot of ground and talk intelligently about the future in a way we haven't been doing today."

Although he wishes Lincoln was selling EVs today, Hay also said rolling out requirements now gives dealers a chance to prepare.

"Lincoln put a lot of time into trying to get this right," he said. "We don't have a lot of opportunities to have misses. The brand needs to make sure that when this happens, it's done well." AN