Recommendations for California Financial Incentives for PEVs

Financial incentives for plug-in electric vehicles (PEVs) help to move the market from the early adopter stage to the mass market phase. With California currently only 14% of the way to the Governor's goal of 1.5 million electric vehicles on the road by 2025[1], these financial incentives are crucial to lay a solid foundation for long-term market development.[2]

As the national consumer voice for PEVs, Plug In America urges policymakers to adopt the below principles as part of any financial incentive policy on PEVs.

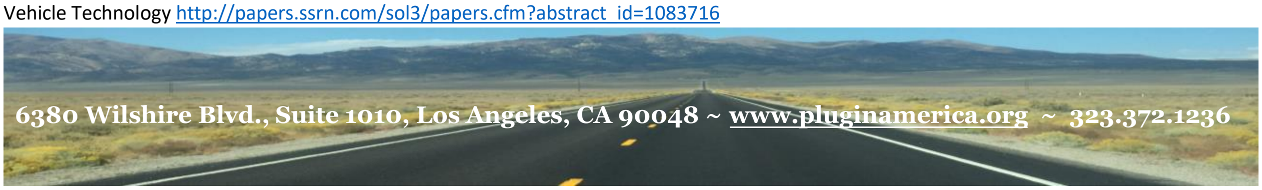
Principle # 1: Sales tax exemptions for PEVs work best to stimulate consumer purchase of a PEV.

- Simple policies are always best, and both government stakeholders, auto dealers and consumers benefit in the following ways:
    - Government: Funding does not need to be appropriated under a sales tax exemption, and there are no administrative costs to implement.
    - Dealers: A sales tax exemption is easier to explain and administer, with no extra steps to take on behalf of the consumer.
    - Consumers: Sales tax exemptions require no eligibility requirement for the consumer, and are easy to understand. The consumer also does not need to have additional cash or a higher loan upfront, as would be needed with a rebate.
- The sales tax exemption should be on the price of the vehicle, before any federal tax credits.
- To further encourage the used PEV market, the sales tax exemption should also apply to used cars. This will help to expand the base of PEV owners, and encourages adoption of these clean cars for all consumers.
- A sales tax exemption is preferred over other financial incentives such as rebates, tax credits or refundable tax credits for the reasons stated above, in order to create long-term market stability and development. Rebate programs that rely on allocated and appropriated funding sources are subject to start and stop momentum, which hinders long-term market growth.
- In states without a statewide sales tax, tax credits can be an alternative financial incentive, but offer limited use for consumers - particularly low-income consumers - with minimal tax liability.[3] Any financial incentive that moves beyond the point of sale and requires additional eligibility, qualification or steps can reduce the effectiveness of the incentive.[4]

Principle # 2: All PEVs should be eligible for the sales tax exemption.

- Limitations on the kinds of PEVs eligible for the sales tax exemption should not be based on the manufacturer's suggested retail selling price (MSRP), as this would penalize those drivers that choose to purchase a vehicle that offers additional benefits to the driver. All PEVs should be treated equally.

[1] Executive Order B-16-2012: https://www.gov.ca.gov/news.php?id=17472
[2] As of September 2016, California has 216,340 PEVs on the road: http://www.zevfacts.com/sales-dashboard.html.
[3] States with no statewide sales tax include Alaska, Delaware, Montana, New Hampshire and Oregon.
[4] As far as consumers are concerned, cash at the time of purchase is by far the best financial incentive – over twice the value of a tax credit. More info available at: Gallagher, Kelly and Erich Muehlegger. 2008. Giving Green To Get Green: Incentives and Consumer Adoption of Hybrid Vehicle Technology http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1083716



- An ideal incentive for PEVs is around $3,000. Depending on the sales tax rate in a state, the MSRP eligible for the sales tax exemption may need to be set in a way that provides this $3,000 incentive. For example, a PEV that with an MSRP of $50k in a state with 7% sales tax may need to limit the eligible MSRP to the first $45k of the vehicle.
- As the market nears the mass adoption stage, eligibility could be restricted to cars based on the range of pure electric miles driven. For example, only vehicles that can drive at least 40 miles on a battery is one way to limit vehicle eligibility. This would encourage more sales of cleaner battery electric cars (BEVs), which aligns with the overall California policy goal of a 40% reduction in greenhouse gas (GHG) emissions by 2030.

Principle # 3: Income caps on financial incentives hinder the growth of the used PEV car market and are therefore not recommended.

- The main argument for implementing an income cap with any financial incentive is one of equity. However, the PEV market is unique from other auto and tech product markets. Approximately 75% of PEVs are leased, much more than gasoline cars.[5] This is due to the PEV market just starting to offer new vehicle models, new software and battery technology and new OEMS bringing a PEV to market for the first time. This means that every 2-3 years, depending on the lease terms, these vehicles will be in the used car market, available for purchase at significantly reduced prices. This allows for low-income consumers to purchase a relatively new PEV.
- A sales tax exemption for new and used cars provides a level playing field for all consumers that grows the PEV market, whereas income caps disturb the used car market by discouraging those higher-income consumers from purchasing the PEV in the first place.
- Financial incentives for PEVs tip the scale in favor of these cars with zero tailpipe emissions, regardless of income level. Having more PEVs on the road benefits all Californians.
- The used car market is only now in its first generation, as PEVs purchased 3 or 4 years ago are currently being sold and replaced with new models. The used car market must be allowed to develop further before any limitations are made on the market.

Principle # 4: The sales tax exemption is optimally combined with a rebate for turning in a used gasoline vehicle with a tailpipe emissions rate as predetermined by the California Air Resources Board (CARB).

- The fastest, most efficient way to reduce air pollution and achieve the GHG emissions reductions needed from the transportation sector is to simultaneously promote the replacement of older, polluting gasoline cars with PEVs. CARB should determine which cars are eligible for a rebate based on the tailpipe emissions.

Plug In America works to accelerate the shift to putting more PEVs powered by clean, affordable, domestic electricity on the road. A sales tax exemption is a financial policy that works for all consumers, including low-income consumers. With this smart policy in place, combined with the fact that nearly all consumers – including multi-family housing dwellers and renters - have access to basic charging infrastructure through standard 120V outlets (Level 1 charging), California can achieve its PEV goals.

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[5]According to Green Car Reports, in 2015 75% of PEVs were leased. http://www.greencarreports.com/news/1100513_electric-car-drivers-love-em-but-dont-buy-em-why-leasing-rules

About Plug In America

Plug In America is the nation's leading independent consumer voice for accelerating the use of plug-in electric vehicles in the United States to consumers, policymakers, auto manufacturers and others. Formed as a non-profit in 2008, Plug In America provides practical, objective information collected from our coalition of plug-in vehicle drivers, through public outreach and education, policy work and a range of technical advisory services. Our expertise represents the world's deepest pool of experience of driving and living with plug-in vehicles. The organization conceived National Drive Electric Week and has advanced workplace charging by pioneering ride-and-drive events at such leading corporations as Google, Mattel and Paramount Pictures. We drive electric. You can too. www.pluginamerica.org