Study: EV Incentives May Hit Low-Income Buyers with Unexpected Tax Bill

LAKEWOOD RANCH, FL, UNITED STATES, June 11, 2025 /EINPresswire.com/ -- A new study published by the American Accounting Association finds most states that offer financial incentives for electric vehicles (EVs) provide those incentives in a way that can place unexpected financial burdens on car buyers. The study finds these burdens may hit low-income taxpayers particularly hard.

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“Of the 15 states that offer financial incentives to EV buyers, 13 of them offer those incentives in the form of rebates,” says James Lawson, an assistant professor of accounting at Bucknell University and co-author of the paper on EV tax incentives. “Those rebates may need to be reported to the federal government as taxable income, which many taxpayers don’t know. So, when it’s tax time, taxpayers may find themselves having to report up to $7,500 in additional income.”

“This is particularly problematic for low-income buyers,” says Vernan Rivera, co-author of the paper and an assistant professor of accounting at Bucknell. “The increase in reported income for low-income households may make them ineligible for programs such as the Earned Income Tax Credit and the Child Tax Credit, as well as repayment requirements for income-based benefits such as the Supplemental Nutrition Assistance Program (SNAP). This is an important point because some state incentive programs include rebates aimed specifically at low-income taxpayers. And taxpayers often don’t learn about these consequences until they file their taxes the following year.”

For this study, the researchers looked at state and federal incentive programs as well as publicly-available data from nine states – including California, Illinois and New York – regarding who is making use of these programs. Their analysis focused on the extent to which state and federal EV incentive programs advanced policy goals, as well as whether there were any unintended consequences associated with those incentives.

“While our paper does analyze federal incentive programs, the future of those incentives – including domestic manufacturing requirements added by the Inflation Reduction Act – is uncertain,” Lawson says. “However, state incentive programs are not tied to the federal incentives.

“We also found tremendous variability in how states talk to consumers about potential tax liability,” Lawson says. “Pennsylvania says rebates should be claimed as income. California says rebates should not be claimed as income. Other states provide little or no guidance. It can be confusing for consumers.”

“We also found that incentive programs are not being used primarily by residents of high-pollution areas, suggesting the programs are making limited progress toward related policy goals,” Rivera says.

“There are two clear take-aways. First, we need legislation specifying that these rebates should not be claimed as income. Second, we need consistency between state and federal programs regarding which EVs qualify for these incentives.”

The paper, “Driving ESG: Tax Policy and Electric Vehicle Incentives,” is published in the American Tax Association’s Journal of Legal Tax Research, which is under the umbrella of the American Accounting Association. The paper was co-authored by Raquel Alexander, a professor of accounting at Bucknell; and by Curtis Nicholls, the Kiken Family Chair in Management at Bucknell.

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