

The True Cost of the Inflation Reduction Act's 'Green' Tax Credits

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THE PROBLEM

- **Inaccurate Cost Estimates:** The initial estimate of \$369 billion for the green subsidies under the Inflation Reduction Act (IRA) has significantly increased, with projections now ranging from \$800 billion to over \$1.8 trillion.
- **IRS Policy Changes:** Changes in eligibility for the \$7,500 federal EV tax credit have expanded access, leading to substantial cost increases. This includes households with incomes over \$300,000 and more expensive vehicles.
- **Disproportionate Benefits:** The majority of EV tax credits have gone to higher-income households, with the top 20% of income earners receiving 80% of all credits, while the bottom 60% have received only 3%.
- **Extended Subsidies for Renewables:** The tax credits for non-GHG-emitting energy sources are tied to emission reduction targets that are unlikely to be met before 2050, potentially extending subsidies for decades and costing trillions.
- **Increased Grid Strain:** The push for widespread adoption of EVs is expected to significantly increase electricity demand, requiring large investments in grid infrastructure and new power production capabilities.



THE SOLUTION

- **Adopt Model Legislation:** States should consider adopting the American Legislative Exchange Council's (ALEC) model bills like "The Electric Reliability Act" and the "Equitable Escalation of Electricity Demand Act" to ensure grid reliability and equitable distribution of costs.
- **Grid Update Funding:** Introduce surcharges for new EV owners to fund ongoing grid updates and expansions rather than burdening general ratepayers with these costs.
- **Ensure Reliable Power Supply:** Require state energy commissions to prevent the closure of existing baseload power plants until it can be proven that new EV demand will not compromise grid reliability.
- **Transparent Procurement Policies:** Adopt policies such as the ALEC's "Act to Prohibit State Procurement of Electric Vehicles with Forced Labor Components" to ensure ethical sourcing and procurement practices.
- **Regulate EV Sales:** Consider barring the sale of vehicles produced using child or slave labor, leveraging state authority to uphold constitutional and federal laws in the face of potentially conflicting federal regulations.

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INTRODUCTION

The Inflation Reduction Act (IRA) was passed on August 16, 2022, but the contents of the legislation do little to achieve its titular purpose. A large part of the spending bill comes in the form of tax credits to “green” energy sources such as wind and solar power, as well as battery storage and electric vehicles (EVs).

As touted during its passage, these green subsidies were to total \$369 billion, “the most significant action...taken on clean energy and climate change in the nation’s history,” according to the Biden administration.¹ Since then, however, the price tag on these tax credits has increased.

In November 2022, Credit Suisse estimated total federal spending on these provisions would be more than \$800 billion, double the Biden administration’s claims.² An estimate from the Joint Committee on Taxation from April 2023 put the spending figure at \$515 billion between 2023 and 2033.³ Also in April 2023, Goldman Sachs estimated the IRA’s spending incentives at \$1.2 trillion through 2032.⁴ In a March 2023 report, the Brookings Institution produced a range between \$900 billion and \$1.2 trillion through 2031.⁵ The Committee for a Responsible Federal Budget’s February 2024 cost estimate was \$870 billion through 2031.⁶ An estimate from the Cato Institute in March 2024 found the cost of the IRA’s

green subsidies could be north of \$1.8 trillion over a decade.⁷

The true cost of these green subsidies is anyone’s guess, but it is a practical certainty that they will come in far higher than originally proclaimed. We know this because the last federal budget before the incorporation of the IRA—fiscal year (FY) 2024—contained a ten-year cost projection for green energy subsidies that was only \$145 billion, while the FY 2025 budget—which does incorporate the IRA—saw the cost of these subsidies balloon to over \$1.1 trillion. This clearly suggests the true price tag of the IRA’s green subsidies will be closer to \$907 billion than \$369 billion.⁸

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WHY THE DISCREPANCY?

Part of the reason for these ballooning estimates is due to a ruling from the Internal Revenue Service in March 2023. This policy allows those with annual household incomes over \$300,000 to be able to claim the \$7,500 federal EV tax credit on leased vehicles—which they were previously unable to do—and

also allow the credit for cars with a manufacturer’s suggested real price (MSRP) price above \$55,000 and trucks and SUVs with a MSRV above \$80,000.⁹ Far more people and far more EVs are now eligible for the tax credit than when the IRA was passed.

It is important to keep in mind that 80 percent of all federal tax credits for EV purchases have already gone to households in the top economic quintile, with the top five percent of all income earners having received 50 percent.¹⁰ The bottom three economic quintiles, 60 percent of all income tax filers, have received just three percent of all EV tax credits.¹¹

One estimate has this loosening of the eligibility requirements for the federal EV tax credit ballooning its cost by 524 percent through 2031.¹² The aforementioned Brookings Institution analysis estimates the expanded costs will amount to an incredible 3,445 percent.¹³ Separately, the National Center for Energy Analytics estimates that the cost of building out the infrastructure to move to a fully electricity-powered fleet in the United States could fall between \$2 to \$4 trillion.¹⁴

Another major reason for this discrepancy is that the IRA's tax credit provision for producing electricity from non-greenhouse gas (GHG)-emitting sources such as wind and solar power does not begin its phase out until the total GHG emissions from the electricity sector fall below 25 percent of their 2022 levels, a 75 percent total reduction in emissions from that sector.¹⁵

Unfortunately, the U.S. Energy Information Administration does not estimate that such a level of emissions reductions is achievable until at least the year 2050.¹⁶ An analysis by the consulting firm Wood Mackenzie notes "these tax credits will be extended for substantially longer than 2032 – perhaps even 30–40 years. Absent IRA repeal, this means that instead of several hundred billion dollars in tax credits for new renewables and storage through 2032, the real money on the table is on the order of trillions of dollars over multiple decades."¹⁷ The same analysis estimates these open-ended subsidies could

drive the cumulative cost of the IRA energy credits between a range of \$2.5 to \$3 trillion.¹⁸

POLICY RECOMMENDATIONS

While state legislators cannot do much to directly address the massive, open-ended federal subsidies to the wind and solar industries and the makers of EVs, there are a few ways they can indirectly fight back.

For instance, states could adopt the American Legislative Exchange Council's (ALEC) model bill, "The Electric Reliability Act," which would require new firm power to be brought online before closing existing firm power sources.¹⁹

Replacement of firm power plants that produce power on demand with variable wind and solar is not sufficient to secure grid reliability with present demand, much less

with the added demand likely to flow from the U.S. Environmental Protection Agency's (EPA) de-facto EV mandate, which essentially requires that a minimum of 56 percent of new cars and trucks sold in the United States by 2032 would have to be EVs in order to meet the new emissions standards.²⁰

State legislators could also adopt a law requiring state energy commissions to forbid the closure of existing baseload power plants until it can be proven the added demand for electric power from the EPA's new vehicle emissions rule will not hamper reliability. To achieve that goal, the owners of new EVs should pay a surcharge for ongoing grid updates and expansions rather than having general ratepayers subsidize the added strain that EVs are putting on the grid. Policymakers should also direct energy commissions to require that for every X percent in demand new EVs place on the grid, some amount of new on-demand power supply (coal, natural gas, or nuclear) should be added to the grid or existing plants

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be upgraded to supply more power. If necessary, before implementing these requirements, legislators should direct the public utilities commissions to study the concerns raised and issue reports open for public review and comment.

Legislators could also consider policies similar to those ensconced within the ALEC’s draft model bill, the Equitable Escalation of Electricity Demand Act. Because federal policies like the IRA and EPA emissions standards are incentivizing and mandating the widespread adoption of EVs, grid operators project an imminent rapid increase in overall electricity demand, which will require large investments in power production and grid infrastructure.

ALEC’s model bill states that the cost of technologies which demand large increases in domestic power, like electric vehicles—if they achieve widespread adoption due to IRA incentives and EPA mandates—should be borne by those who benefit directly from the new power supply, not ratepayers in general.

To both cover this cost and provide sufficient additional dispatchable power, this bill would place a fee on all new EV charging stations connected to the electric grid and all new electric vehicles sold. The fee would be separate from any fee levied on EVs for infrastructure construction and maintenance, and would be dedicated to the construction of new dispatchable power supplies to meet expected demand, without socializing the cost across all ratepayers.

One more way to push back would be to adopt ALEC’s “Act to Prohibit State Procurement of Electric Vehicles with Forced Labor Components” model

legislation, developed with the help of The Heartland Institute.²¹ Besides pushing back on Washington’s green schemes, adopting this model legislation has the additional benefit of defending America’s principled and legally required stands on religious liberty, personal freedom, and child labor.

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As the model legislation reads, “Taxpayer dollars should not be used to create demand for this inhumane practice, and states should restrict government procurement of electric vehicles unless the manufacturers responsible for the supply chain can show that the taxpayer dollars will not be used to buy a vehicle made with forced labor.”²² If states were to adopt this bill, it would essentially bar the purchase of any electric vehicle for which the “slave and

child labor free” guarantee cannot be transparently established—which applies to the vast majority of all EVs on the market. This law should apply to all states and the various political jurisdictions with them: counties, cities, towns, et cetera.

Finally, legislators could consider barring the sale of vehicles produced using child and/or slave labor in their state as whole. Congress is charged with regulating interstate commerce, an authority it has compromised through its delegation of regulatory authority to agencies like the EPA. When it comes to EVs, Congress’ interstate commerce authority clashes with other provisions of the Constitution that bar slavery and religious persecution, as well as with federal laws barring child labor. Because the EPA has recognized the authority of some states to set stricter clean air standards than federal law demands, states could fight for authority to uphold the Constitution and federal law in the face of federal regulations from the EPA that seem to undermine them in spirit, if not in letter.

Endnotes

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