

Discussion Draft Proposal: Revising Maryland's Electric Vehicle Incentive Program

April 3, 2023

This document is intended to generate discussion among members of the Maryland Commission on Climate Change's (MCCC) Mitigation Working Group (MWG). It should not be construed as a final recommendation from the MWG, MCCC, or any other entity.

Problem: Light-duty vehicles including cars, SUVs, and pickup trucks are the largest source of greenhouse gas (GHG) emissions in Maryland. To achieve Maryland's nation-leading GHG reduction goals, drivers must rapidly transition from combustion to electric vehicles (EVs). The Maryland Department of the Environment (MDE) is preparing to adopt California's Advanced Clean Cars II regulation, which will phase out the sale of combustion vehicles in Maryland by 2035. These standards should be paired with incentives to help Marylanders, especially low- to middle-income households, afford the additional upfront cost that can be associated with purchasing an EV and installing EV charging equipment.

Starting July 1, 2023, Maryland will offer an exemption of the state's 6% sales tax on new EVs that have a manufacturer-suggested retail price (MSRP) of up to \$50,000. For example, a new EV with an MSRP of \$50,000 would qualify for a \$3,000 tax exemption and a new EV with an MSRP of \$25,000 would qualify for a \$1,500 tax exemption. This level of incentive helps Marylanders cover some of the additional upfront costs of purchasing an EV, however, the program is woefully underfunded. The program's FY24 budget of \$8.25M could run out of funds by this September, which will likely make many Marylanders frustrated with the state's program and turned off by the idea of buying an EV. A revision of the program is needed.

Solution: Funded by The Nature Conservancy, Energetics and VEIC recently conducted a study, [Accelerating Light Duty Zero Emission Vehicle Adoption in Maryland](#), to help the MWG consider potential revisions to the state's EV incentive program. The consultants shared their study results and policy recommendations with the MWG between February and March 2023. This discussion draft proposal is based on the consultants' work and focused on helping individuals purchase EVs and charging equipment. Proposals to help businesses purchase EVs and charging equipment or expand the network of public chargers could come later this year.

Policy Goal: Stack state incentives on top of federal incentives so that Marylanders living in low- to middle-income households can purchase or lease new or used EVs and install at-home charging equipment at no additional cost compared with the cost of purchasing or leasing new or used combustion vehicles.

Question 1: Is this the right policy goal? Should incentives be targeted to cover 100% of the additional upfront cost of purchasing an EV and charging equipment? What are alternative or additional goals for this policy?

DISCUSSION DRAFT

Eligibility: There are different definitions for “low- to middle-income households” but it is sometimes defined as having household income between 0% and 150% of the area median income. For the purposes of this policy, it is advantageous to use the federal income limits for used EV incentives, which are structured to qualify low- to middle-income individuals. Specifically, to qualify, an individual’s modified adjusted gross income may not exceed:

- \$150,000 for married filing jointly or a surviving spouse
- \$112,500 for heads of households
- \$75,000 for all other filers

Using these income limits means approximately 70% of Marylanders would qualify for both state and federal incentives for new and used EVs. Some high-income Marylanders would qualify for federal incentives for new EVs but they would not qualify for state incentives.

Question 2: Should incentives be targeted at low- to middle-income households? Are these the best limits to use?

EV Incentives: Vehicle manufacturers are in the [practice](#) of increasing EV prices by the amount covered by federal incentives, which means the manufacturers, not consumers, are the ones who benefit the most from federal EV incentives. State incentives with income eligibility requirements can be harder for manufacturers to factor into vehicle pricing. As a result, state incentives can play an important role in helping bring the upfront cost of an EV to match the upfront cost of a combustion vehicle.

The following state incentives would be available to eligible Marylanders. The incentives roughly correspond to the projected diminishing difference in the purchase price of EVs and comparable combustion vehicles (based on [slide 14](#) of the Energetics/VEIC study).

New EVs

- \$5000 in 2025, \$4000 in 2026, \$3000 in 2027, \$2000 in 2028, and \$1000 in 2029.
- Diminishing values encourage early adoption and align with EV price projections.
- Use federal price caps (\$55k for cars and \$80k for SUVs and light-duty trucks).
- All new EVs under the price caps qualify.

Used EVs

- \$2500 in 2025, \$2000 in 2026, \$1500 in 2027, \$1000 in 2028, and \$500 in 2029.
- Diminishing values encourage early adoption.
- Used EVs currently cost more to purchase than comparable combustion vehicles but it is unclear when used EVs and used combustion vehicles will reach purchase price parity.
- All used EVs qualify (no price caps).

DISCUSSION DRAFT

Question 3: Is this the right structure for the incentives? Should incentives decrease annually to match projected decreases in the purchase price difference between EVs and combustion vehicles? Should the state adopt the federal price caps for new EVs? Should the state adopt price caps on used EVs?

Charging Equipment Incentives: From 2023 to 2032, a federal tax credit for home EV charging equipment covers 30% of the cost of hardware and installation for one-way and two-way (bidirectional) chargers. Maryland offers a rebate worth 40% of the total installed cost for home charging equipment, however, the program is underfunded to meet demand. Assuming an individual can access the state's program, then combined federal and state incentives currently cover 70% of the total installed cost of charging equipment.

The state incentive should be increased to cover the last 30% of the total installed cost of home chargers for low- to middle-income households, bringing the combined coverage for federal and state incentives to 100% of total installed costs. The maximum payout for the state's program should be increased from \$700 to \$1500 for one-way chargers. A higher maximum payout should be set for two-way chargers to accelerate the deployment of infrastructure that is capable of vehicle-to-load (V2L), vehicle-to-home (V2H), and vehicle-to-grid (V2G) charging.

Question 4: What should be maximum payout be for two-way chargers?

Claiming the EV Incentive: Any Marylander could apply for the EV incentive prior to or following the purchase of a new or used EV. When applying, the applicant would submit a copy of their tax return from the previous year to show that their modified adjusted gross income is within the limits of eligibility. The State would issue a check to the qualified applicant. The check would become valid when the dealer verifies that a qualified new or used EV was purchased by the qualified applicant. In the case of EVs purchased directly from manufacturers without the involvement of dealers, then the applicant must apply for the incentive following the purchase of a qualified EV and submit proof of purchase with the application.

Question 5: How can this program become even more accessible? Could the Comptroller send checks to all eligible Marylanders so that people can just bring their checks with them to the dealer to be activated upon purchase of an EV?

Claiming the Charging Equipment Incentive: Any Marylander could apply for the charging equipment incentive following the installation of home charging equipment. The applicant would submit a copy of their tax return from the previous year to show that their modified adjusted gross income is within the limits of eligibility. The applicant would also submit an invoice from the installer showing the total installed cost of the charger. The state would issue a rebate check to the qualified applicant.

Question 6: Could the rebate go to the installer to reduce the customer's upfront cost?