Federal EV Incentive – 2025 Outlook

Changes to Battery Rules and Used EV Supply

2025 will bring a large increase in the supply of eligible used EVs and new restrictions on battery critical minerals and component manufacturing..

Changes in Battery Sourcing Rules

Each year, the law requires a step-up in the minimum source-compliant rules for batteries.

- The percentage of critical minerals sourced either domestically or from a free-trade partner increases from 50% to 60%.
- The battery-module manufacturing requirement remains at 60% from North America.
- IRS loosened rules around the sourcing of graphite to take effect in 2025.
- Foreign entity of concern rules now apply to battery assembly as well as critical mineral sourcing. That means that for the 40% that does not have to come eligible sources, none can come from any entity deemed a FEOC. Of course, this is mainly China, but applies to some other places as well.

Many vehicles lost eligibility in 2024 as the requirements became more stringent and the first part of the FEOC kicked-in. On the other hand, the industry is grateful for the recent flexibility on graphite, an area in which China is even more dominant.

The OEMs are working hard to wrangle their supply chains to become compliant. We expect a gradual increase in eligible vehicles as new plants open in North America.

The above rules apply only to consumer purchases. They do not apply for leases or commercial purchases. On the basis of a controversial IRS ruling, these vehicles are not required to comply with the consumer purchase rules. It has driven skyrocketing increases in the rate of EV leases. According to Kelly Blue Book, leases now account for almost half of new EV sales and have surpassed financing as the preferred method for acquiring a new EV.

Used EV Incentive

This is one area where there will be a significant change for the better. Despite the gloom and doom reporting, EV sales are growing. In CT, EVs represented 10.4% of all new vehicle sales in Q2 of this year, according to CT DEEP. The July Connecticut DMV registration data show that EV registrations increased by 45% year on year, on top of a similar increase the year before.

What that means is that increasing numbers of EVs are eligible for the used incentive. The rule regarding vehicle age is that the model year of the vehicle must be at least 2 years older than the current calendar year. So, as of January, all of the 2023 EVs become eligible. Every year, the pool will increase.

There are lots of other rules around new and used EVs. See our Incentives page for a full description.