



Subsidizing Luxury Vehicles Makes No Sense

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Should you spot a Tesla electric car on the road, see if the driver is smiling. He should be smiling at you for contributing \$7,500 to the purchase price of his luxury automobile.

That's because every Tesla Model S or X, which range in price from \$66,000 to \$150,000, qualifies for a \$7,500 federal tax credit. And many states offer additional incentives for buying electric vehicles.

It's time for taxpayers to stop subsidizing status symbols for the wealthy.

The good news is the tax credits, which were included in the 2009 stimulus bill with support from President Barack Obama, only apply to the first 200,000 electric vehicles sold by each manufacturer.

Tesla has now sold more than 85,000 cars in the U.S. With the introduction in late 2017 of the Model 3, which has a tentative base price of \$35,000, Tesla will soon reach 200,000 vehicles sold, and the subsidy will then be phased out.

The bad news is there is talk of extending federal credits for electric vehicles. We can soon expect to see proposals in Congress, promoted by swarms of crony capitalists and their lobbyists, who will argue that the fledgling electric vehicle industry needs just a few more years of subsidies to finally become competitive with gas-powered cars.

If you doubt this will happen, look at the wind and solar industries, which have used the same argument to extend their subsidies successfully half a dozen times, most recently in December.

Before the subsidy-seekers really get going, let's look at the full extent of government handouts for Tesla.

The Los Angeles Times revealed in May 2015 that Tesla had received benefits of \$2.4 billion. These included \$284 million in federal tax credits, \$517 million from selling California zero emission vehicle credits to other automakers and \$1.3 billion in incentives from Nevada for siting its huge new battery factory there.

Elon Musk, the billionaire founder, CEO and largest shareholder in Tesla, reacted angrily to the LA Times story. He claimed that the handouts Tesla received were "a pittance" and "one-thousandth of what the oil and gas industry get in a single year."

Musk's claim is highly misleading. True, the International Energy Agency in 2014 estimated that total global subsidies for motor vehicle fuels were \$550 billion annually. However, most of that goes to keeping fuel prices low in countries with nationalized oil companies — like Saudi Arabia, which recently raised gasoline prices by 50 percent in January to 90 cents a gallon.

In the United States, the oil and gas industry does get approximately \$4 billion per year in federal handouts. These payments should be eliminated.

On the other hand, federal, state, and local taxes on gasoline and diesel fuel average 48 cents a gallon. The federal 18.4 cents gas tax and 24.4 cents diesel tax raised \$35 billion in 2014, which is used to fund mass transit as well as highway projects. Electric vehicles make no contribution to maintaining our roads or our mass transit systems.

Musk has another argument up his sleeve to justify taxpayer largesse lavished on his company: to save the world from global warming.

Tesla's electric cars and the solar panels produced by his other company, Solar City, are part of a necessary transformation away from fossil fuels and to renewable energy.

Even if we agree that greenhouse emissions need to be reduced to save the world from global warming, subsidizing electric vehicles makes no sense.

With low gasoline prices now and probably far into the future, consumers are flocking back to larger gas-powered vehicles. Thus, the tiny market share for electric cars is going to remain tiny for a long, long time.

Wealthy people who want a Tesla as their third or fourth vehicle can pay the full market price. And they should.

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