

Is Elon Musk Just A Billionaire Welfare King?



By [Gaurav Agnihotri](#) - Jun 11, 2015, 1:17 PM CDT

Elon Musk is undoubtedly one of the most charismatic billionaires in business today, one whose electric cars have created a cult following and whose companies, Tesla Motors Inc and Solar City Corp., have proven popular among investors.

However, [The Los Angeles Times](#) recently reported that Musk's Tesla Motors Inc., SolarCity Corp. and SpaceX have received \$4.9 billion in a variety of state and federal incentives. Does this mean that the Los Angeles-based entrepreneur has created his empire largely with the help of government subsidies? Is Elon Musk just a billionaire welfare king who has benefited hugely from government grants, discounted loans, tax breaks, government incentives and the sale of environmental credits?

Let us have a look at the companies and the amount of subsidies that underlie Elon Musk's success so far.

[Tesla Motors Inc.](#)

Tesla is set to receive an incentive worth \$1.3 billion from the state of Nevada in order to build a new battery factory called the 'gigafactory' near Reno. Nevada initially offered Tesla its standard incentive package that was in the range of \$600-\$700 million, but after several rounds of tough negotiations a deal was finalized that also included tax credits worth \$195 million which Tesla could sell for cash. [Related: Kurdish Oil Exports Under Threat](#)

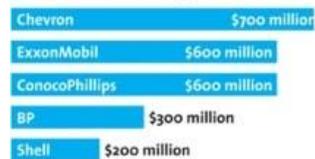
Moreover, anyone who buys a Tesla is eligible for a [\\$7,500 federal income](#) tax credit, while residents in California can receive an additional rebate of \$2,500 from the state. The sum total of federal tax credits for all Tesla vehicle sales stands at \$284 million, while total California rebates reach about \$38 million.

Tesla Motors Inc. even gets large pay checks from its competitors in the form of environmental credits. California has adopted regulations that require car manufacturers to buy environmental credits if they fail to sell enough zero-emission cars. That works to Tesla's benefit. So far Tesla has raised more than [\\$517 million](#) from rival automakers by selling credits, allowing them to comply with environmental regulations.

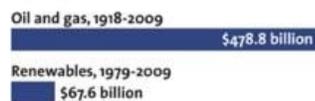
In all, Tesla Motors Inc. has received close to \$2.391 billion in form of government subsidies.

[SolarCity Corp.](#)

Estimated Annual Tax Breaks for the Big Five



Total Tax Breaks Over Time (in 2013 dollars)



Estimated Tax Break per Barrel of Oil Produced in US



Average Annual Tax Breaks (in 2013 dollars)



Mother Jones

Tesla isn't Elon Musk's only source of government largesse.

SolarCity also takes advantage of a variety of government incentives. The federal government allows a 30 percent tax credit through the provision of an [Investment Tax Credit](#) (ITC) to the users of SolarCity Corp.'s solar panel systems. The company has reportedly received direct grants worth \$497.5 million from the Treasury Department. SolarCity is also getting a [\\$750 million investment](#) from New York for its plans to build a solar panel factory in Buffalo.

So far, SolarCity Corp. has benefited from \$2.516 billion in government subsidies.

[Space Exploration Technologies Corp.](#)

Founded in 2002, Space Exploration Technologies Corp. or SpaceX is a manufacturer and designer of advanced rockets and is the first commercial company to ever visit the [international space station](#). SpaceX has received [government contracts](#) worth \$4.2 billion from NASA and the U.S. Air Force. Apart from this, the company has also received a \$20 million subsidy to construct a launch facility in Texas.

How do these subsidies compare with the oil and gas industry?

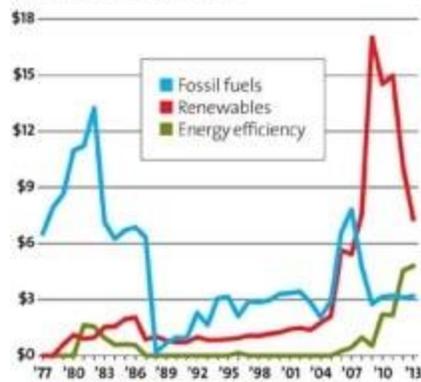
"If I cared about subsidies, I would have entered the oil and gas industry," Musk said in response to the aforementioned LA Times article. Looking closely at the history of oil and gas subsidies, we find that the U.S. government has provided the industry with \$470 billion over the last century, according to a [report](#) from Mother Jones. Today, [Oil Change International](#), an advocacy group, says that taxpayers pay nearly \$5 billion each year in federal subsidies that promote exploration and development of new fossil fuel resources, a more or less similar amount that Elon Musk's businesses have received so far.

U.S. President Barack Obama has been trying to remove fossil fuel subsidies for years. "You can keep subsidizing a fossil fuel that's been getting taxpayer dollars for a century, or you can place your bets on a clean-energy future," he said on the campaign trail in 2012. [Related: Oil Markets Could Be In For A Shock From China Soon](#)

However, his proposals have gone nowhere in Congress. Oil Change International says that oil subsidies have in fact grown by almost 45% since Obama took over office in 2009, mainly due to increases in the value of tax breaks and incentives resulting from greater oil and gas production.

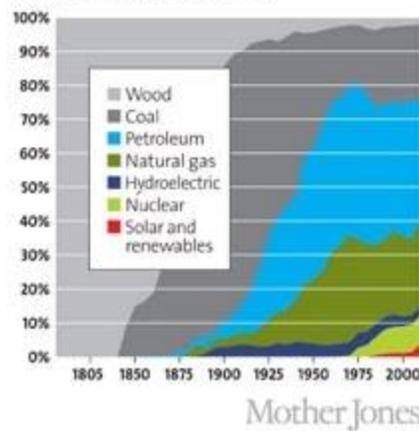
Energy Tax Breaks

(in billions of 2013 dollars)



Where Our Energy Comes From

(as a percentage of total use)



Mother Jones

Are such vast sums of money justified?

“The article makes it seem as though my company is getting some huge check, which is fundamentally false,” Musk has said in response to questions about subsidies.

However, Musk cannot deny that his company does indeed receive some huge incentives from the federal government. The rationale behind providing any subsidy is to develop a promising new technology that can be better, cheaper and cleaner than the current available option.

The Mother Jones report finds that renewables receive around \$7.3 billion per year in subsidies. Renewable energy companies might argue that their industry is still relatively young, sort of like the oil and gas industry was a century ago. By that logic, subsidies for solar, wind, and electric vehicles make sense – government assistance is helping them get off the ground.

Over time, the government subsidies allow new technologies to advance and bring down costs, allowing for much wider adoption by the general public. For now, Tesla's are out of reach for most people. People who can afford a \$100,000 + per car are the ones whose annual household income tends to be around [\\$320,000](#). [Related: A Glut For Natural Gas Too?](#)

But speaking to CNBC, Musk emphasized that Tesla wants to eventually create an affordable EV for the masses, although the economies of scale required for that kind of a development are not there at the moment. Musk thinks that could change by 2017.

On the other hand, SolarCity Corp is already offering several affordable schemes to its customers, making solar a competitive option for reducing consumers' [electricity bills](#). It is worth noting here that both Tesla Motors and SolarCity have reported net losses in the last few years, however their share prices have soared thanks to positive investor sentiment. Elon Musk currently holds around \$10 billion in these two companies (SpaceX never discloses its financial performance).

Spending \$4.9 billion per year in taxpayer money may or may not be a wise investment. Eventually, Tesla could make cleaner vehicles and clean electricity entirely mainstream. A century of public assistance has helped create Big Oil. Only time will tell if Elon Musk can do the same with Tesla and SolarCity.