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KBRA Releases Research - EVs' Popularity Could Diminish State Gasoline Taxes for Transportation Funds

NEW YORK–(BUSINESS WIRE) — KBRA releases research that examines the dramatic growth in electric vehicles (EV) in recent years, with sales in 2022 up nearly 40% from the prior year. EV demand represents about 2.85% of total cars sold in the U.S. and is expected to increase to 6% by 2035.

Much of the recent growth has been supported by a favorable tax structure, including tax incentives to purchase EVs as well as lower taxes associated with their ownership compared to gasoline-powered cars. This favorable tax environment reflects the public policy goal to increase the use of EVs because of their lower carbon footprint. However, public policy will have to recognize the effects of lower tax revenues from gasoline taxes and consider implementing modifications to the tax laws. In this report, KBRA reviews the tax incentives for the purchase of electric vehicles and the longer-term revenue implications of the shift toward EVs, including the potential effects on outstanding municipal bonds.

Key Takeaways

- The demand growth for electric vehicles will reduce greenhouse gas emissions, but also gasoline taxes and related revenues. Lost tax revenues are already significant.
- Public policy will likely have to unwind the fiscal trade-off of encouraging EVs through incentives if the related reduction in revenues becomes more significant.
- The loss of gasoline-based revenues could pressure municipal bond issues that rely on them. That said, most major state borrowing programs that heavily rely on this revenue stream have room to adjust their tax structures if needed.

Click here to view the report.

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