



WHAT THEY ARE

Subsidies for passenger EVs are an incentive in the [vehicle policy package](#). They play a key role in accelerating electric car sales, particularly for early adopters, and are in place in many markets. They can accelerate EV adoption by reducing the price gap between EVs and vehicles with internal combustion engines (ICEs). Subsidies usually take the form of discounts or rebates. They can also be implemented as tax reductions through income tax credits.

Discounts and rebates are the most commonly used incentives to lower the purchase price of EVs. They can be fixed direct discounts that are deducted from the cost of the vehicle at the point of sale, or rebates/refunds that are assigned once the vehicle has been purchased.

Subsidies have been implemented in most major EV markets, with different levels of incentives and requirements on eligibility, increasing the EV adoption. Additionally, different subsidy levels can help consumers opt for more efficient or affordable models among the EVs.

HOW TO IMPLEMENT

The main components of EV grants are the design, allocation of funds, and compliance requirements. The structure of the grant should be adapted to local market conditions, considering the price gap versus incumbent technologies, the average market prices and the target group.

Implementation often follows several steps:

- 1. Market analysis:** To identify the models offered, their fuel efficiency, their model cost and the main price differences between EVs and ICEs.
- 2. Setting target groups:** Based on the market analysis and characteristics of the local market, target groups can be defined. This can include assigning benefits to private or company cars, different types of vehicles, and used or new models. In some regions capturing different vehicle modes, including two and three-wheelers, can contribute to increasing affordability and access to clean energy technologies. It can be useful to consult behavioural experts in the design phase to ensure the policy has its intended effects.
- 3. Definition of the scheme:** Benefits should be set to achieve price parity or to reduce the price gap between available EVs and their ICE counterparts. Funds should be assigned based on sales targets. A price cap for eligible models should be set to limit the benefit to only affordable models and provide price signals to manufacturers. Different subsidy levels can be used, based on factors such as income, vehicle type or battery capacity. Programme designs should give certainty to both manufacturers and customers by setting a fixed period accompanied by specific targets that trigger adjustments.

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- 4. Adjustment period:** Once the scheme is implemented, it should be revised and updated as the market evolves. This includes adapting the benefit to market conditions, reducing the price cap and including new target groups.

When selecting the subsidy to be implemented, direct discounts or rebates are usually preferable, as they have an immediate impact on the price of the vehicle, making it easy for the buyer to factor them into their decision-making. In contrast, income tax credits are received at the end of the fiscal year and only for those liable to pay, disproportionately benefitting higher-income households. This must be considered during the design stage and be paired with eligibility criteria to avoid leaving anyone behind. Tax exemptions can complement selected subsidies in countries with high VAT or import duties, while the exemption of registration fees can also contribute to the reduction the overall costs.

HOW TO MONITOR

Incentive programmes should be constantly monitored and evaluated based on specific targets and desired outcomes. The success of the programme should be based on the achievement of the sales targets initially set. Failure to reach the targets should trigger an evaluation of the programme and an adaptation of the incentives. As the targets are achieved, subsidies need to be progressively adjusted and eventually phased out. Based on available funding, these incentives can be redirected to specific groups in order to increase access to these technologies and reach other segments of the market.