



Aaron electric vehicle incentives

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Many shoppers have taken advantage of lease deals on electric vehicles (EV) and plug-in hybrids (PHEV) that factor in a federal tax credit of up to \$7,500. Now that the Trump administration is planning to get rid of that credit, according to reports from Reuters, those in the market for a new EV or PHEV will have a limited time to act if they still want to save.

- o Because you lease only for a few years, you won't be stuck with a car that has outdated battery technology or charging standards, as these are still rapidly evolving.

- o If an automaker drops the price of a new EV by thousands of dollars overnight--as Tesla did with the Model S and X, and Ford did in July on the F-150 Lightning--you won't take the hit if your leased vehicle is suddenly worth less than it was the day before.

However, our analysis of available deals found that leasing might not always save you money in the long run, despite a lower monthly payment--especially if you end up with a vehicle that isn't reliable or satisfying. To help you make the right decision, we've put together a guide to leasing an EV or PHEV that should answer all your questions.

With a lease, you make a monthly payment to a leasing company to drive a new car for a set number of months--usually 18 to 36--and for a set number of miles. The payment is essentially the amount the car is expected to depreciate during the lease period. You'll usually make a down payment as well. The monthly payments are often less than what you would pay to finance a new vehicle for a similar time period. At the end of the lease, you return the car to the leasing company.

For now, EVs are eligible for a federal tax credit of up to \$7,500. But for purchases, both the car and the buyer are subject to numerous conditions: The vehicle has to be made in North America, its battery components and minerals must meet specific sourcing requirements, it must be priced under a certain threshold, and the buyer's income must not exceed a certain amount. That's why only a few EVs qualify.

But those conditions all get thrown out the window if you lease. "A lease is considered a commercial sale to the leasing company and is eligible for a separate commercial vehicle tax credit that has fewer restrictions than the consumer tax credit," says Chris Harto, CR's senior energy policy analyst. That means the leasing company can get a full \$7,500 tax credit for an EV, and in turn pass some or all of those savings on to you in the form of lower lease payments. (Leasing also lets you enjoy those savings even if you don't owe a tax burden at the end of the year.)

"The amount of the lease credit is deducted from the price of the vehicle at the time of signing, which reduces the customer's monthly cost," says Phil Dilanni, a spokesperson for BMW, one of the manufacturers that



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offers discounted leases on some vehicles.

Many manufacturers explicitly mention the tax credit in their advertised lease deals--Audi and Volkswagen call it an "EV Lease Bonus," and Dodge calls it a "Hybrid/Electric Federal Tax Credit." But other companies are less clear, and consumers might assume it's a standard discount. For example, Mercedes-Benz advertises "Lease Bonus Cash" and Lexus offers "lease cash." We have heard dealership salespeople refer to the tax credit as a "pass-through," a "capitalized cost reduction," or a "45W" credit, so look out for those terms, too. All these lease credits will likely go away if the federal tax credit on EVs is revoked, but some leased EVs may continue to be eligible for state and local savings, or even rebates from electric companies.

It's hard to walk away from a lease. Most important for EV owners, it's difficult to terminate a lease if you decide that you don't like the car, or if your lifestyle changes and an EV no longer meets your needs. You'll probably get stuck with thousands of dollars in early termination fees and penalties if you get out of a lease early--and they'll all be due at once. Those charges could equal the amount of the lease for its entire term.

You'll have equity in a car you own. At the end of the lease, you have no equity in the car--nothing to show for the payments you've made. If you choose to lease another car, the payments start up again. If you don't, you may have to pay a disposition fee that's typically a few hundred dollars.

There are no mileage limits. If you go over your lease's mileage limit--typically between 10,000 and 12,000 miles per year--you'll have to pay an excess mileage penalty. That can range from 10 cents to as much as 50 cents for every additional mile. You don't get a credit for unused miles.

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