

# IRA Developments to Watch in the EV and Battery Supply Chain for 2025

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The incoming Trump Administration's approach to the Inflation Reduction Act (IRA) and tax policies is generating significant interest within the electric vehicle (EV) sector.

Generally, reports indicate that some Republican politicians, including individuals connected with the Trump Administration, intend to repeal or limit certain IRA tax incentives. US Congress could limit tax incentives by capping a tax credit, for example, or narrowing the activity or outputs eligible for a tax credit.

However, Republican states have invested substantial amounts into projects that benefit from IRA tax incentives. Accordingly, the repeal or limitation of many of the IRA tax incentives could negatively affect Republican constituents, and the Republican-controlled Congress and Trump Administration may seek to avoid such a result.

While exact policy directions are still unfolding, here are some critical areas to follow.

## Key Points to Watch in 2025

### 1. Changes to EV Tax Credits

- Reports indicate that Trump's transition team aims to eliminate the \$7,500 consumer tax credit for EV purchases, which was enacted as part of the IRA.
- However, other reports suggest that Republicans might leave the IRA largely untouched because Republican states and constituencies have largely benefited from the IRA.
- Modifications to the EV tax credits could make EVs more expensive for consumers, potentially slowing adoption and affecting industry growth. The outcome will depend on legislative negotiations and pressures from various constituencies.

### 2. FEOC Restrictions

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- Under the IRA, Foreign Enemy of Concern (FEOC) restrictions prevent taxpayers from claiming the \$7,500 consumer tax credit if certain critical minerals contained in the EV battery of the purchased EV were extracted, processed, or recycled by an FEOC. Reports indicate that the Trump Administration may extend such FEOC restriction to other IRA tax incentives.
  - For example, it has been suggested that Congress impose FEOC restrictions on the IRA tax credit available to manufacturers under Section 45X (Advanced Manufacturing Production Credit).
  - Revisions to the FEOC restrictions under the Trump Administration might impact trade dynamics.

### **3. FEOC Equity Thresholds**

- The FEOC restriction limits eligibility for the \$7,500 consumer tax credit for EV purchases if certain critical minerals contained in the battery of such EV were extracted, processed, or recycled by a foreign entity that is owned by, controlled by, or subject to the direction of another entity connected with certain foreign governments (generally, China, Russia, Iran, and North Korea). A foreign entity is owned by, controlled by, or subject to the direction of another entity if 25% or more of the entity's board seats, voting rights, or equity interests are held by the other entity.
- The Trump Administration may choose to maintain or adjust the current 25% equity threshold for FEOC entities.
- If the Trump Administration opts to make the FEOC rules more stringent or tightens other investment regulations for FEOC entities, the Trump Administration may prevent such FEOC entities from benefitting from certain IRA tax incentives.
- Investments by these entities in free trade agreement countries or the United States could face additional scrutiny or restrictions, although the extent of permissible equity stakes in such ventures remains uncertain and could be influenced by broader trade considerations, national security, and economic priorities. The Trump Administration's stance on China and related economic strategies will significantly influence these policies.

### **4. National Security and IRA Coverage**

- Changes to the IRA's coverage of components and constituents, particularly in the context of battery-related products, could be influenced by national security considerations. The Trump Administration might prioritize restrictions on Chinese-made energy storage systems (ESS) and related components due to their strategic importance in critical infrastructure and grid security.
- The new Republican Congressional majority could seek amendments through tax reform aiming to address these concerns, potentially modifying or phasing out certain IRA incentives related to clean energy and battery production.
- As discussed above, the Trump Administration may seek to impose FEOC restrictions on certain IRA incentives and may cite to national security concerns as a reason for imposing restrictions at certain points in the supply chain through changes to these incentives. However, specific policy directions will also depend on the Trump Administration's assessment of risks and priorities at the time of such legislative developments.

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