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Tesla Model 3 buyers lose patience, tax credits and lives as dangerous Tesla kills another

By TOM KRISHER



DETROIT (AP) — In March of 2016, Keith Reynolds flew from California to Atlanta so he could claim his spot in line at 4 a.m., and get a three-hour head start on his West Coast competitors.

Tesla was taking \$1,000 deposits for its new electric car, the Model 3, priced starting at \$35,000. And Reynolds had to have one. He managed to land near the top of the waiting list.

Flash forward more than two years, through much-publicized production delays. Reynolds is still waiting.

And now, like others in the U.S. on a waiting list of about 420,000 worldwide, he worries that the looming phaseout of a \$7,500 federal tax credit will put the cost of the car out of his reach.

“The tax credit was going to be huge,” says Reynolds, 45, who works in digital advertising, lives in Laguna Hills, California, and drives a 9-year-old Audi A3 compact car.

Last week, Tesla sales hit 200,000 since the start of 2010 — the point at which federal law requires the credit for rechargeable electric vehicles to be phased out. Tesla buyers will continue to get the full credit through the end of the year. Then it drops to \$3,750 for six months and \$1,875 for another six months before ending entirely on Dec. 31, 2019.



For many on the list to buy Tesla's mass-market electric car, the wait for the company to produce enough to satisfy demand isn't a major problem. But the prospect of losing a U.S. federal tax credit is. (July 18)

That means buyers need to be behind the wheel of a new Tesla by the end of the year to get the full \$7,500 tax break — essentially a 21 percent discount off the base model's sticker price.

Many Model 3 customers will tire of waiting and drop out, predicted Dave Sullivan, manager of product analysis at AutoPacific Inc., an auto research and consulting firm. “By then they will have been waiting for three years possibly,” he said.

Tesla wouldn't comment on the possibility of losing buyers from the waiting list.

But if buyers bail, it could put the company's future in peril, costing sales and desperately needed cash flow for Tesla at a critical time in its 15-year history. Tesla is using the Model 3 to move from a niche maker of expensive electric cars for the wealthy to an automaker for the masses.

CEO Elon Musk has promised to turn a profit in the second half of this year, but Tesla has lost money in all but two quarters in its eight years as a public company. In the first three months of this year it burned \$1 billion as it ramped up Model 3 production at a Fremont, California, factory. The company had \$2.7 billion in cash at the end of March.

In March, Moody's Investor Service sounded an alarm, downgrading Tesla's debt into junk territory and warning that it won't have cash to cover \$3.7 billion for normal operations, capital expenses and debt that comes due early next year. Tesla has said Model 3 sales will generate cash and drive profits.

Musk began sleeping at the factory in an effort to fix automation and other problems that much of the year held output to around half of the goal he set last summer of 5,000 Model 3s per week. The company built a heavy-duty tent to add space to make more Model 3s and said it reached 5,000 per week at the end of June.

Like many of those still on the waiting list, Reynolds wants to order a Model 3 priced closer to the \$35,000 base. The cheapest version only comes in black, with other colors costing at least \$1,000 more.

At present, Tesla is selling only pricier versions with longer-range battery packs. The last time Reynolds configured one on Tesla's website, the lowest price was \$49,000, beyond what he can afford.

He wants the car badly enough that he'll spend over \$40,000, as long as California and federal credits still cut the price to around \$35,000. He'll hang on until the end of this year. Beyond that, he said he'll likely drop out if there's no federal credit and "if no configuration options are made for the frugal, penny-pinchers like myself."

Others on the waiting list interviewed by The Associated Press said they were worried about losing the tax credit. Several recent buyers and customers on Tesla internet forums expressed similar concerns.

Most Tesla buyers who already got the tax credit — about 120,000 — are wealthier people who didn't need it to buy Tesla's more expensive Model S and Model X, which can cost over \$100,000, said Navigant Research analyst Sam Abuelsamid. He said the tax law should have had an income limit for eligibility. "If you can afford to buy a \$140,000 Tesla, you don't really need the incentive," he said.

The only other automaker that's close to losing the tax credit is General Motors, which has sold about 185,000 electric cars and should hit 200,000 early next year, according to the Edmunds.com auto pricing site. (Edmunds regularly provides content, including automotive tips and reviews, for distribution by The Associated Press.)

Kelley Blue Book analyst Rebecca Lindland put down a refundable \$1,000 deposit on a Model 3 in April of 2016 because she believes in Musk's crusade to cut auto emissions to zero. Three months ago, she canceled her order, partly because of the delays, partly because she now wants a hatchback.

Lindland also wondered if she'd ever get the car. "I've already been on the list for two years," she said. "I need all-wheel-drive, and I would have to wait another year."

She doesn't think Tesla will be able to keep making 5,000 cars per week, and she is skeptical of the cars' quality and worried that Tesla could run out of money, unable to service vehicles.

Christian Kingery, a Seattle-area web developer, was among the first to order a Model 3 in 2016. He wanted a loaded version with all-wheel-drive for rainy weather, but was troubled by the prospect of losing federal and Washington state tax credits.

He compromised and ordered a rear-drive version in April. But his delivery date was delayed, costing him the Washington credit, which he says was worth \$3,000 before it expired in May.

When all-wheel-drive became available, he switched his order, pushing delivery to September.

Although Kingery is frustrated, he still wants the car. "Tesla is doing something that no other carmaker is doing, in a way that no other carmaker is doing," he said.

Like Reynolds and Lindland, he knows about the Model 3's impressive handling, 310-mile battery range and futuristic interior with all the controls on a touch screen.

He will just have to wait a little longer to drive one.