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Tesla could lose billions in revenue as Trump administration weighs eliminating a key regulatory credit loophole

By Sasha Rogelberg
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As Tesla stock sputters following CEO Elon Musk’s feud with President Donald Trump, the EV maker is facing yet another threat from the administration. Republicans are doubling down on efforts to weaken carbon emission standards for the auto industry, which have provided opportunities for companies producing eco-friendly vehicles, such as Tesla, to receive and sell regulatory credits for profit.

The Senate Committee on Commerce, Science, and Transportation proposed last week eliminating penalties for companies not meeting certain economy fuel standards set to mitigate carbon emissions. The proposal is included in the committee’s portion of Trump’s sweeping budget bill.

After Corporate Average Fuel Economy (CAFE) standards were introduced in 1975 as a means of setting standards for fuel efficiency, a credits program emerged following lobbying efforts from auto companies looking to be paid to produce lower emission vehicles. Auto companies that produce a certain amount of energy-efficient cars are given a number of credits, depending on how eco-friendly their manufactured vehicles are. Companies are required to have a certain number of credits annually.

While Tesla is able to easily attain these credits as a producer of cars that don't run on gas, other manufacturers, like Ford and Stellantis, are not. Therefore, they buy credits from Tesla, who can sell those credits for practically 100% profit.

The Senate committee's proposal would eliminate certain CAFE penalties, rendering the need to have credits useless, Chris Harto, senior policy analyst at Consumer Reports, told *Fortune* in an email.

"It also would essentially turn the CAFE standards into nothing more than a reporting requirement with no consequences for automakers who fail to improve the efficiency of the vehicles they sell," he said.

The committee argued the provision would "modestly" bring down the cost of cars by eliminating CAFE penalties.

These CAFE credits have been a boon for Tesla, which has been battered by CEO Musk's controversial involvement in—and departure from—the Trump administration. The EV-maker made $2.76 billion from regulatory credits in fiscal 2024 and $595 million in the first quarter of 2025, according to earnings reports. Tesla reported $420 million in net income the same quarter, meaning without the regulatory credit, the company would not have been profitable.

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"By taking away these credits, they're taking away a key element of Tesla's profitability," he added.

Tesla did not respond to *Fortune*'s request for comment.

Tesla's credit headaches

The Senate committee's proposal is one of several efforts by the Trump administration to cut auto sustainability standards. Last month the Senate passed legislation blocking a California effort to ban gas-powered vehicles and mandate sales of only zero-emission cars and light trucks by 2035. The bill, should it be signed by the president, would take a $2 billion bite out of Tesla's revenue, according to JPMorgan analysts.

Also in Trump's massive budget bill is the elimination at the end of this year of tax credits up to $7,500 for buyers of certain Tesla and other EV models, which would cost $1.2 billion of Tesla's full-year profit, the analysts calculated.

Tesla's credit headaches extend across the Atlantic Ocean. Regulatory credits are common in Europe and Asia, and the European Union, for example, gives credits to European automakers who sell a certain number of zero-emission cars.

But as Tesla sales crater overseas—including falling by 49% in April—the EV maker may not be able to reach the number of sales necessary to gain credits. As of April, Tesla—grouped with Ford and Stellantis in a manufacturing pool to achieve the EU's emission standards—are still short of the target, according to a report from the International Council on Clean Transportation. Poor sales could jeopardize Tesla's ability to rack up credits.

"If things go bad for Tesla and they don't sell enough cars this year, they might not have enough credits for what they promised Stellantis and the others," ICCT managing director Peter Mock told Politico in March. "Tesla is under pressure."

https://fortune.com/2025/06/10/tesla-revenue-regulatory-credits-senate-republican-budget-bill/