EXTRA CREDIT FOR PURCHASING AN ELECTRIC VEHICLE

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2023 has brought opportunity under the Inflation Reduction Act for tax credits on the purchase of clean vehicles, including both plug-in electric and fuel cell vehicles. Internal Revenue Service (IRS) code Section 30(D) defines a clean vehicle as a vehicle that is used solely by the taxpayer and has a gross weight of less than 14,000 pounds. The final assembly of the vehicle must be performed within North America and the qualified manufacturer of the vehicle must furnish a report to the taxpayer and the IRS certifying the vehicle.

The available tax credit is $7,500, divided into two parts: $3,750 if the vehicle meets the critical mineral requirement and $3,750 if it meets the battery component requirement.

The critical mineral requirement with respect to the battery from which the motor draws electricity is satisfied if the percentage of critical minerals that have been extracted or processed in the U.S., or in a country with a free trade agreement meets certain thresholds. For tax year 2023, the percentage is 40%, which increases by 10% yearly through 2026. After 2026, the percentage will be 80%.

For tax year 2023, 50% of battery components must be manufactured and assembled in North America. That increases to 60% through 2025 and incrementally through 2028. Thereafter, 100% of the value of the battery components must be manufactured or assembled in North America.

No credit will be allowed for a new vehicle with a manufacturer's suggested retail price more than $80,000 for a van, sport utility or pickup truck, or $55,000 for any other vehicle. The credit is available to taxpayers with a modified adjusted gross income (AGI) cap of $300,000 for married couples filing jointly, $225,000 for heads of households and $150,000 for other filers.

The credit for previously owned clean vehicles is limited to 30% of the sale price up to $4,000. The model year should be at least two years previous to the calendar year in which the taxpayer acquires the vehicle, and the original user of the vehicle must be a person other than the taxpayer. The vehicle must be acquired from a dealer, and the sale price cannot exceed $25,000. The taxpayer must not have claimed another clean vehicle credit in the prior three years. The credit is limited to an AGI cap of $150,000 for married couples, $112,500 for heads of households and $75,000 for all others.

The IRS provides a credit for qualified commercial clean vehicles acquired before January 1, 2033, equal to the lesser of 30% of the basis of a vehicle not powered by a gasoline or diesel internal combustion engine, or the incremental cost of that vehicle. Incremental cost is defined as the excess of the purchase price of that vehicle over the price of a comparable vehicle. The credit cannot exceed $7,500 for vehicles weighing less than 14,000 pounds or $40,000 for other vehicles.

The above tax credits may only be claimed to the extent of reported tax due and cannot be refunded or carried forward.