

## QUALIFYING FOR “CLEAN VEHICLE” TAX CREDITS<sup>1</sup>

Cleaner vehicles are a key part of “decarbonizing” our future, because the transportation sector contributes 27% of total U.S. greenhouse gas emissions. Want to cut your carbon footprint, but think you can’t afford an electric vehicle (EV)? The Inflation Reduction Act of 2022 (IRA) that went into effect in 2023 may help.

***Qualified*** taxpayers will earn a \$7,500 tax credit<sup>1</sup> for the purchase of a new ***qualified*** clean vehicle or a smaller credit for a used ***qualified*** model.

While you always should **consult a qualified tax adviser before making a purchase with the expectation of a tax benefit**, the following information may be helpful to you:

Q: Must taxpayers meet income limits to qualify?

A: Yes, for new vehicle purchasers, single filers are limited to \$150,000 and joint filers, to \$300,000. For used vehicle purchasers, single filers are limited to \$75,000 and joint filers, \$150,000.

Q: How much is the tax credit for qualifying clean vehicles?

A: For new vehicles, \$7,500. For used vehicles, it’s the lesser of \$4,000 OR 30% of its purchase price.

Q: When does the vehicle need to be purchased to qualify?

A: Qualifying purchases must be made in 2023 through 2032.

Q: What types of automobiles are defined as “clean vehicles” in the new law?

A: New electric, plug-in hybrid and hydrogen fuel-cell models, plus used electric and plug-in hybrid non-commercial vehicles at least two years older than the year of sale.

Q: Is there a limit on the value of the purchased clean vehicle?

A: Eligible new vehicles must have a Manufacturers Suggested Retail Prices (MSRP) of \$80,000 or less for a van, SUV or pickup truck and \$55,000 or less for passenger cars. The purchase price of a used clean vehicle is limited to \$25,000.

Q: What qualifies as a new clean vehicle?

A: Besides its new provisions for used vehicles, the new law extends the existing tax credit for new clean vehicle purchases, with the following significant changes:

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<sup>1</sup> A tax credit is subtracted from your tax liability and lower taxes more than does a deduction.

1. The previous limits that phased out tax credits as a manufacturer sold 200,000 of a given model no longer apply, making some more popular models eligible again.
2. The credit is reduced or eliminated if a certain minimum percentage of the critical minerals used in the vehicle's battery components are not extracted or processed in the US or a Free Trade Agreement country or recycled in North America. That percentage increases annually, from 40% in 2024 to 80% in 2026.
3. The credit is reduced or eliminated if the vehicle is not assembled in North America or if at least 50% of its battery components were sourced from outside North America. The percentage increases annually, eventually to 100% in 2028.

Q: Are there tax benefits available to businesses that buy new clean vehicles?

A: Yes. Qualifying electric and fuel cell vehicles with a gross vehicle weight rating (GVWR) under 14,000# must have a battery capacity of at least 7 kilowatt-hours (kWh); heavier GVWR vehicles must have a battery capacity of at least 15 kWh.

Q: How much is the tax credit for qualifying commercial vehicles?

A: Tax credits may not exceed \$7,500 for vehicles under 14,000# or \$40,000 for vehicles above 14,000# and set at the lesser of the following amounts:

- 15% of the purchase price for electric or plug-in hybrid vehicles or 30% for electric and fuel cell models

OR

- The incremental cost of the qualifying clean vehicle compared to an equivalent internal combustion engine (ICE) vehicle

Q: If my federal tax liability is less than the tax credit, may the excess credit be carried forward to next year's tax liability?

A: Personal taxpayers filing via Form 1040 may not carry excess credit forward into the next tax year, though businesses filing via Form 3800 often may do so.

Q: Where can I find the current list of qualified clean vehicles?

A: The most helpful list is <https://fueleconomy.gov/feg/tax2023.shtml> for new vehicles and <https://fueleconomy.gov/feg/taxused.shtml> for used models.

For the regulatory details, see <https://www.irs.gov/pub/taxpros/fs-2023-08.pdf>

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