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## Tax Credit for Buying a Clean Vehicle

In our December 2023 Tax Alert, we covered the energy efficient home improvement credit and the residential clean energy credit for individuals. Staying with that theme, for this month, we will be discussing the credits available for buying a clean vehicle.

### New Vehicles

Beginning in 2023, the rules for the credit available for electric vehicles have changed. If you are in the market for an electric vehicle, it is important to become familiar with the new rules to help you maximize the credit.

The credit is generally available to middle-income taxpayers purchasing eligible moderately priced electric vehicles.

**North American assembly requirement.** To qualify for the electric vehicle credit, final assembly of the vehicle must take place in North America. You can check whether a particular vehicle meets this requirement by entering its vehicle identification number (VIN) into the VIN decoder at <https://afdc.energy.gov/laws/inflation-reduction-act> or <https://www.nhtsa.gov/vin-decoder>. There is also a list of makes and models that generally should meet the requirement at <https://afdc.energy.gov/laws/inflation-reduction-act>, but you should double-check for any vehicle by using the VIN decoder. A list of eligible vehicles is also available at [FuelEconomy.gov](https://www.fueleconomy.gov).

**Calculation of the credit.** Under the new rules, the amount of the credit is based on two separate requirements, each one based on where the vehicle's battery is sourced:

1. Taxpayers get a \$3,750 credit for meeting the critical minerals requirement (which requires that a minimum percentage of the minerals contained in the battery be sourced in the United States or a country with which the United States has a free trade agreement in effect).
2. Taxpayers also can get a \$3,750 credit for satisfying the battery component requirement (which requires that a minimum percentage of the value of the components of the battery be manufactured or assembled in North America).

A vehicle can satisfy either or both requirements, for either a \$3,750 credit (if only one requirement is satisfied) or a \$7,500 credit (if both requirements are satisfied).

*New qualified fuel cell motor vehicle.* The credit is also available for new qualified fuel cell motor vehicles. New qualified fuel cell motor vehicles are vehicles propelled by power derived from one or more cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel, and that meet certain additional requirements. New qualified fuel cell motor vehicles must meet the North American final assembly requirement. They can qualify for either a \$3,750 or \$7,500 credit, based on whether they satisfy one or both of the critical minerals requirement and battery components requirement.

*Modified adjusted gross income limitation.* Your ability to take the electric vehicle credit is limited based on your modified adjusted gross income (MAGI). MAGI is adjusted gross income (AGI) increased by certain nontaxable foreign income that rarely applies. For most taxpayers, MAGI will be equal to AGI. You may not take the credit if your MAGI exceeds the threshold amount:

Married taxpayers filing a joint return or a surviving spouse, \$300,000.  
Taxpayers filing as head of household, \$225,000.  
All other taxpayers (single, married filing separately), \$150,000.

These amounts are **not** adjusted for inflation.

*MSRP limitation.* Vehicles are not eligible for the credit if they exceed an MSRP limit:

\$80,000 for vans, pickup trucks, and sport utility vehicles  
\$55,000 for other vehicles.

### **Previously Owned Vehicles**

*Credit amount.* The credit is available for eligible used vehicles **purchased from a dealer** for \$25,000 or less. The credit amount is 30% of the vehicle's sale price, up to a maximum credit of \$4,000. This has the effect of a dollar-for-dollar reduction in the vehicle's purchase price.

*Who can claim the credit?* To qualify, you must use the vehicle, rather than purchase it for resale. The credit is allowed only once for any vehicle. Those who qualify as your tax dependents do not qualify for the credit. You can only claim the credit once every three years.

*Income limitation.* To qualify for this credit, your adjusted gross income, increased by certain nontaxable foreign income that rarely applies, for either the sale year or the year preceding it must be \$150,000 or less on a joint return (\$112,500 for a head of household filer, or \$75,000 for singles and separately filing married taxpayers).

*Qualifying automobiles.* The rules for vehicles to qualify for the credit are complicated. Luckily, the IRS provides a list of eligible autos at <https://www.irs.gov/credits-deductions/manufacturers-and-models-of-qualified-used-clean-vehicles>.

**This alert covers only some of the tax rules related to tax credits for clean vehicles that could potentially impact you or your family. The tax rules in this area are complex and there are many issues to consider in purchasing a clean vehicle. Please contact us if you have questions, want more information, or would like us to help you with purchasing a clean vehicle, so that by working together we can deliver the best tax results for you.**

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