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Clean Vehicle Tax Credit Program

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 into law which includes the Clean Vehicle Tax Credit program. This new program is a modification of the existing Electric Vehicle Tax Credit program by expanding the tax credits available to consumers but introduced new limitations for qualification. This document will provide an overview of the tax credit qualifications and critical dates for transitioning from the old to the new program.

What is the Clean Vehicle Tax Credit?

The qualified Electric Vehicle Tax Credit was introduced in 2008 and offered up to $7,500 in tax credits for purchasing a qualifying electric vehicle. Unfortunately, the credits available for a manufacturer's vehicles were phased out once the manufacturer sold 200,000 qualifying cars. Tesla and GM reached this cap in 2018, which is why you can no longer receive electric vehicle tax credits for purchasing vehicles from those manufacturers.

The Clean Vehicle Tax Credit program, included in the Inflation Reduction Act, lifts the 200,000 vehicle cap and is effective for qualified vehicles placed into service after December 31, 2022.

For new vehicles, the maximum tax credit is $7,500. For used vehicles, the maximum credit is the lesser of $4,000 or 30% of the vehicle's sale price.

While the tax credit availability has been expanded, there are several limitations on which cars and individuals qualify for the Clean Vehicle Tax Credit.

Limitations

First, only cars where the final assembly is in North America are eligible for the Clean Vehicle Tax Credit. Since manufacturers may have multiple assembly plants, a purchaser should verify where the final assembly of a car occurred. You can check by entering a car's Vehicle Identification Number into the National Highway Traffic Safety Administration's VIN Decoder tool. The website will show where the vehicle was assembled at the bottom of the page.

Second, there are limitations based on the total manufacturer's suggested retail price. New trucks, vans, and SUV models must cost less than $80,000. Other new cars, like coupes and sedans, must cost less than $55,000. For used electric vehicles, the price cap is $25,000, but the cars won't have to comply with the made-in-North-America requirement.

Third, there is a complicated limitation based on the vehicle's battery. At least 40% of the minerals and 50% of the other components of the battery must come from North America or a country that has a free trade agreement with the U.S. These percentages are scheduled to increase in future years.

While there are limitations based on the vehicle, there are also limitations based on the purchaser's income. The Clean Vehicle Tax Credit for new vehicles is only available to taxpayers whose modified adjusted gross income does not exceed $150,000 for single filers, $225,000 for a head of household, or $300,000 for married couples. The adjusted gross income limits for purchasers of used vehicles are $75,000 for single filers, $112,500 for a head of household, or $150,000 for married couples.

Timing

The Clean Vehicle Tax Credit program was signed into law on August 16, 2022, but applies to vehicles put into service after December 31, 2022. So what about cars purchased between August 16 and December 31, 2022? Cars purchased between August 16 and December 31 fall under the original electric vehicle tax credit program, but the vehicle's final assembly must occur in North America to receive the tax credits.

Some consumers may have purchased a car before August 16 but had not taken possession by then. The IRS stated that if you had a binding written contract to buy a qualifying vehicle before August 16, but had not taken possession of the car by the 16th, then the purchase falls under the original electric vehicle tax credit program. This is important because the original tax credit program does not require final assembly in North America.

The challenge for buyers today is that even though the new Clean Vehicle Tax Credit program does not have the 200,000 vehicle cap, it doesn't go into effect until after December 31, 2022, and will significantly limit those who qualify for the new tax credit. Therefore, if you're considering buying an electric car, it may be beneficial to purchase one under the original Electric Vehicle Tax Credit program with a final assembly in North America before December 31. Unfortunately, vehicles manufactured by Tesla, GMC, Cadillac, Bolt, and Chevrolet do not qualify for the Electric Vehicle Tax Credit due to reaching the 200,000 vehicle cap.

If you would like to see which vehicles may qualify for the Electric Vehicle Tax Credit between now and December 31, 2022, you can visit the Department of Energy's website, which provides a list of vehicles with final assembly in North America.

Final Thoughts

This document is intended to provide a brief overview of the Clean Vehicle Tax Credit and is not a substitute for speaking with one of our expert advisors.

If you'd like to learn more about the Clean Vehicle Tax Credit, please contact our office.

About Horty & Horty.

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