

Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Jeffrey C. Quinlan, CPA

Balance sheet

Green Credits for Vehicles By Jeffrey Quinlan, CPA

The Inflation Reduction Act of 2022 makes several changes to the tax credit for purchasing electric vehicles. The original credit was \$7,500 for electric vehicles that had a minimum battery capacity of four kilowatt hours. Also, the original credit ended when a manufacturer reached 200,000 units of sales and the new law eliminated this limitation. Some of the other changes are favorable, but some make it harder to receive the credit. The following will explain the changes to the credit.

First, vehicles sold after August 16, 2022, qualify if their final assembly occurs in North America. This requirement reduces the number of vehicles that qualify for the credit. The IRS lists vehicles models on their website that qualify for the credit but cautions that some vehicles are produced in multiple locations. The IRS list of vehicles that qualify can be found at <https://fuelconomy.gov>. You can confirm the vehicle meets the requirements for final assembly by entering the VIN at the U.S. Department of Transportation's VIN decoder at <https://www.nhtsa.gov/vin-decoder>. Also, this information could be on a label affixed to the vehicle.

In addition to the final assembly requirement, vehicles placed in service after 2022 need to have a minimum battery capacity of seven kilowatt hours. After meeting these two requirements the final credit will be based on meeting two new requirements for vehicles purchased after April 18, 2023. First, vehicles must meet a "critical minerals" requirement to be eligible for a \$3,750 credit. Second, vehicles must meet a "battery component" requirement to be eligible for \$3,750 credit. Meeting both requirements provides you the full \$7,500 credit. The "critical minerals" and "battery component" requirements are designed to make sure vehicle components are made in North America. The IRS website, <https://fuelconomy.gov>, has a list of vehicles that qualify after regulations were issued on April 18, 2023.



There are two limits to claiming these credits after 2022. First, the tax credit is not allowed for new vehicles with Manufacturer's Suggested Retail Price (MSRP) over \$55,000 unless the vehicle is a van, sport utility vehicle, or a pickup truck. The MSRP is capped at \$80,000 for these new vehicles. Second, no credit is allowed for taxpayers whose Modified Adjusted Gross Income (MAGI) exceeds \$300,000 for married filing joint and surviving spouse; \$225,000 for heads of household; and \$150,000 for other taxpayers. The MAGI limit is determined by looking at the year of purchase or previous year if the MAGI is less. When purchasing a vehicle consult with your tax preparer to make sure you are eligible for the credit.

The good news is that used vehicles now qualify for the credit. The credit for used vehicles is \$4,000 or, if less, 30% of the vehicle's sale price. Again, like new vehicles, there is a Modified Adjusted Gross Income test based on the MAGI in the year of purchase or earlier year if MAGI is lower. The tax credit is not allowed for MAGI of \$150,000 for married filing joint, \$112,500 for head of household, and \$75,000 for other taxpayers. For the vehicles to qualify, the used vehicle must be at least two years earlier than the calendar year in which you buy it as well as meet the requirements mentioned in the second and third paragraphs above. Also, the vehicle must be sold for \$25,000 or less and the sale must be the first transfer since August 16, 2022, to a qualified buyer other than the vehicle's original owner. A qualified buyer is an individual who purchases the vehicle for use (not resale), is not a tax dependent of another taxpayer, and has not been allowed a tax credit for a previous-owned clean vehicle during the three-year period ending on the sale date.

As you can see, the new credit expanded opportunities with eliminating the manufacturer limit and allowing for used cars to claim the credit. On the other hand, the amount of vehicles eligible for the tax credit has been reduced as well as taxpayers who can claim the credit. Please consult with us if you need additional information to claim this credit.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.