



update

Energy-Efficient Vehicle Credits

Hybrid, Fuel Cell and Lean Burn Vehicle Phase-Outs

Credit Sunset Dates – The new alternative motor vehicle credit won't apply to any property purchased after:

- December 31, 2014 for a qualified fuel cell motor vehicle,
- December 31, 2010 for an advanced lean burn technology motor vehicle or for a qualified hybrid motor vehicle that is a passenger automobile or light truck or for a qualified alternative fuel motor vehicle, and
- December 31, 2009 for a qualified hybrid motor vehicle that is other than a passenger automobile or light truck.

60,000 Vehicle Limit – For both hybrid and lean burn vehicle credits, the maximum credit is only available up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th hybrid or lean burn vehicle. After that, only 50% of the credit is allowed for the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold and then only 25% in the fourth and fifth calendar quarters and none after the fifth quarter.

Plug-in Electric Vehicles

There are two separate credits for qualified plug-in electric vehicles – one to provide a tax credit for the purchase of electric cars, and another to provide credit for low-speed or two- or three-wheeled vehicles commonly referred to as neighborhood vehicles. The following is a summary of the requirements for both credits.

Four-Wheeled Electric Vehicle Credit – For qualified plug-in electric drive motor vehicles placed in service in 2009, the credit is the sum of \$2,500, plus an additional \$417 for each kilowatt hour of traction battery capacity in excess of four kilowatt hours. The credit applies to any four-wheeled electric

vehicle, and the maximum credit is based on the vehicle's gross vehicle weight rating (GVWR); see table below.

Gross Vehicle Weight Rating (GVWR)	Max Credit
No more than 10,000 pounds	\$7,500
More than 10,000 pounds but no more than 14,000 pounds	\$10,000
More than 14,000 pounds but no more than 26,000 pounds	\$12,500
More than 26,000 pounds	\$15,000

For new qualified plug-in electric drive motor vehicles placed in service after 2009, the weight-based limitation on the maximum credit is removed, and the credit is made up of a base amount of \$2,500 plus, for a vehicle drawing propulsion energy from a battery with at least 5 kilowatt hours of capacity, \$417, plus \$417 per kilowatt hour of capacity in excess of 5 kilowatt hours. This credit is subject to a gradual phase-out once a manufacturer has sold 200,000 vehicles. The phase-out process is similar to the 60,000 vehicle credit phase-out that applies to fuel-efficient vehicles.

Low-Speed, Motorcycle & Three-Wheeled Vehicle Credit –

This credit is equal to 10% of the cost with a maximum credit of \$2,500 per vehicle. Qualifying vehicles include electric drive low-speed vehicles, motorcycles, and three-wheeled vehicles purchased after **February 17, 2009 and before 2012**. This credit is not allowed if the vehicle also qualifies for the four-wheeled electric vehicle credit.

A qualifying vehicle must be either a:

- Low-speed vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 4 kilowatt hours. This would include low-speed, four-wheeled vehicles manufactured primarily for use on public streets, roads and highways (neighborhood electric vehicles) which may also qualify for the four-wheeled vehicle credit. In that case, this credit will not apply to that vehicle.

- Two- or three-wheeled vehicle that is propelled to a significant extent by a rechargeable battery with a capacity of at least 2.5 kilowatt hours.

Off-Road Vehicles & Golf Carts – Vehicles manufactured primarily for off-road use, such as for use on a golf course, do not qualify for either credit.

Purchased or Leased – For both credits, the qualified vehicle may be either purchased or leased by the taxpayer (but not for resale). Original use of the vehicle must begin with the taxpayer.

Business Use and AMT Treatment – The business treatment and AMT deductibility is the same as for the fuel-efficient vehicle credit.

Final Word

One final word: tell the salesperson quoting tax advantages or savings during the sales presentation that you need to check with your tax advisor first to verify the tax benefits before signing on the dotted line. Be sure to contact us so we can determine the benefits based on your particular tax situation. And remember, even though the vehicle credit is available for purchases through 2010 (see credit sunset dates), don't be premature or wait too long to make your energy-property purchases. As the old cliché goes...timing is everything, and it is especially true when it comes to taking advantage of these vehicle energy tax credits.

The advice included in this brochure is not intended or written by this practitioner to be used, and it cannot be used by a practitioner or taxpayer for the purpose of avoiding penalties that may be imposed on the practitioner or taxpayer.

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Client Information Series



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11620 Wilshire Boulevard
Suite 220
Los Angeles, CA 90025

BUSINESS MANAGEMENT

TAXES

PLANNING

T 310.479.7020
F 310.479.7426
www.saacpa.com

Energy-Efficient Vehicle Credits



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The high price of fuel these days is causing an increasing number of taxpayers to look for ways to ease the strain on their pocketbooks. Congress is also looking for ways to reduce fuel consumption to counter the negative effects on the U.S. economy and reduce our dependence on foreign sources of fossil fuels.

If you have been considering purchasing a new car or truck with environmental and fuel-efficient technologies, Congress has provided some significant incentives that should help offset some of the higher purchase costs of many of these types of vehicles.

The incentives are in the form of tax credits for the purchase of new hybrid, fuel cell, advanced lean burn and alternative power vehicles. The amount of the credits vary based on a number of factors, including type of vehicle, vehicle weight class and fuel economy.

Generally, the credit for purchasing these alternative power vehicles is allowed to the vehicle owner, including the lessor of a leased vehicle. It is only allowed in the year the vehicle is placed in service, and the vehicle must be used predominantly in the U.S. to qualify for the credit. No credit is allowable for the portion of the cost of any property taken into account under Code Sec. 179, the expensing provision.

The portion of the credit attributable to vehicles of a character subject to an allowance for depreciation is treated as a portion of the general business credit; the remainder of the credit is allowable to the extent of the excess of the regular tax or alternative minimum tax (AMT) (reduced by certain other credits). Thus, the credit is allowed against the AMT. For years prior to 2009, the credit did not offset the AMT.

Here is a rundown of these credits.

Qualified Hybrid Vehicles

A qualified hybrid vehicle is a motor vehicle that draws propulsion energy from onboard sources of stored energy,

which include both an internal combustion engine or heat engine using combustible fuel and a rechargeable energy storage system (such as batteries).

Automobiles or light trucks – For an automobile or light truck (vehicles weighing 8,500 pounds or less), the amount of credit for the purchase of a hybrid vehicle is the sum of two components primarily based on the vehicle’s fuel efficiency compared with the 2002 standards. These components of the credit are:

(1) A fuel economy credit amount of \$400 to \$2,400. This credit amount is based on the amount that the vehicle exceeds the Model Year City Fuel Economy (MYCFE) rating expressed as an increased percentage of the 2002 MYCFE rating:

Increased Fuel Economy Percent (%)	Credit
125 to 149	\$400
150 to 174	\$800
175 to 199	\$1,200
200 to 224	\$1,600
225 to 249	\$2,000
250 or more	\$2,400

(2) A fuel economy credit amount of \$250 to \$1,000. The conservation credit amount is determined based on the vehicle’s “lifetime fuel savings” and is as follows:

Lifetime Fuel Savings (in gallons of gas)	Credit
At least 1,200 but less than 1,800	\$250
At least 1,800 but less than 2,400	\$500
At least 2,400 but less than 3,000	\$750
At least 3,000	\$1,000

These two credits (the increased fuel economy and the lifetime fuel savings) are added together to form the hybrid vehicle credit, which can total as much as \$3,400.

To qualify for the credit, the vehicle must have a maximum available power from the rechargeable energy storage system of at least 4% and meet or exceed certain EPA emissions standards.

Larger vehicles (Over 8,500 pounds) – For larger hybrid motor vehicles, the rules are significantly more complicated and you should call our office for details.

Fuel Cell Vehicles

A qualified fuel cell vehicle is a motor vehicle that is propelled by power derived from cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel stored onboard the vehicle. The amount of credit for the purchase of a fuel cell vehicle is determined by a base credit that depends on the weight class of the vehicle and, for automobiles or light trucks, an additional credit amount that depends on the rated fuel economy of the vehicle compared to a base fuel economy.

Automobiles or light trucks – For an automobile or light truck (vehicles weighing 8,500 pounds or less), the base credit amount is \$8,000 plus a fuel economy credit amount that ranges from \$1,000 to \$4,000, depending on the vehicle’s rated fuel economy.

Larger vehicles (Over 8,500 pounds) – For larger fuel cell motor vehicles, the credit ranges from \$10,000 to a maximum of \$40,000, based upon the gross vehicle weight rating.

Alternative Fuel Vehicles

Qualified alternative fuel motor vehicles operate only on qualifying alternative fuels and can’t be operated on gasoline or diesel (except to the extent gasoline or diesel fuel is part of a qualified mixed fuel). The credit for the purchase of a new alternative fuel vehicle is 50% of the vehicle’s incremental cost. The vehicle’s incremental cost is the excess of the manufacturer’s suggested retail price for the vehicle over the suggested retail price for a gasoline or diesel fuel motor vehicle of the same model, but not to exceed a limit based upon the vehicle’s weight. If the vehicle also meets certain emissions standards, the percentage is increased to 80%.

Alternative fuels are compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen and any liquid fuel that is at least 85% methanol. Certain mixed-fuel vehicles, that is, vehicles that use a combination of an alternative fuel and a petroleum-based fuel, are eligible for a reduced credit.

Automobiles or light trucks – For vehicles with a gross vehicle weight rating of 8,500 pounds or less, the maximum incremental cost to compute the credit is \$5,000. Thus, the credit maximum would be \$2,500 (50% of \$5,000) or \$4,000 (80% of \$5,000) for the vehicles that also meet the emissions standards.

Larger vehicles (Over 8,500 pounds) – For larger vehicles, the credit ranges from \$5,000 to a maximum of \$32,000, based upon the gross vehicle weight rating.

Advanced Lean Burn Technology Motor Vehicles

This credit only applies to passenger automobiles or light trucks with an internal combustion engine. The credit is in part based on the amount the vehicle exceeds city fuel economy standards and in part on the lifetime fuel savings of the vehicle. To qualify, the vehicle must:

- Be designed to operate primarily using more air than is necessary for complete combustion of the fuel,
- Use direct injection,
- Achieve at least 125% of the 2002 model year city fuel economy, and
- Meet certain other specified conditions.

The amount of the credit is the sum of: (1) an amount for fuel efficiency of between \$400 and \$2,400, and (2) an amount for conservation of between \$250 and \$1,000.