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# Wolf Briefing



## Tax Credits for Purchasing Energy-Efficient Vehicles

Have you been thinking about buying a new car or truck with one of the new environmentally friendly technologies? If so, Congress has just made your purchase decision a little easier. The Energy Tax Incentives Act of 2005 offers special tax incentives for purchasers of fuel-efficient vehicles.

The Act offers new tax credits for the purchase of hybrid, fuel cell, advanced lean burn and other alternative power vehicles. The size of the credit varies depending generally on the weight class of the vehicle and the rated fuel economy. The credit applies to vehicles placed in service after 2005 so you may want to hold off your purchase until next year.

### *Qualified hybrid vehicle*

A qualified hybrid vehicle is a motor vehicle that draws propulsion energy from on-board 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).

For vehicles weighing 8,500 pounds or less, the amount of credit for the purchase of a hybrid vehicle is the sum of a fuel economy credit amount ranging from \$400 to \$2,400 depending on the rated fuel economy of the vehicle, and a conservation credit ranging from \$250 to \$1,000 that is based on the estimated lifetime fuel savings of a qualifying vehicle.



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For a qualified hybrid motor vehicle weighing more than 8,500 pounds, the amount of the credit is equal to a percentage of the incremental cost of the hybrid vehicle that varies from 20 to 40 percent depending upon the estimated increase in fuel economy compared to a comparable vehicle powered solely by a gasoline or diesel internal combustion engine. To qualify for the credit, the vehicle must achieve a fuel economy

increase of at least 30 percent. The credit is subject to certain maximum incremental cost amounts ranging from \$7,500 to \$30,000 depending upon the weight class of the vehicle.

### ***Fuel cell vehicles***

A qualified fuel cell vehicle is a motor vehicle that is propelled by power derived from one or more cells which convert chemical energy directly into electricity by combining oxygen with hydrogen fuel which is stored on board the vehicle and may or may not require reformation prior to use. The amount of credit for the purchase of a fuel cell vehicle is determined by a base credit amount 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. The base credit amounts range from \$8,000 for vehicles weighing 8,500 pounds or less to \$40,000 for vehicles weighing more than 26,000 pounds. The

fuel economy credit amounts range from \$1,000 to \$4,000, depending on the vehicle's rated fuel economy.

### ***Alternative fuel vehicles***

Qualified alternative fuel motor vehicles are vehicles that operate only on qualifying alternative fuels and can't be operated on gasoline or diesel. The credit for the purchase of a new alternative fuel vehicle is 50% of the vehicle's incremental cost, plus an additional 30% if the vehicle meets certain emissions standards, but not more than between \$4,000 and \$32,000 depending upon the weight of the vehicle.

### ***Advanced lean burn technology motor vehicles***

A qualified advanced lean burn technology motor vehicle is a passenger automobile or light truck with an internal combustion engine that is (1) designed to operate primarily using more air than is necessary for complete combustion of the fuel, (2) incorporates direct injection, (3) achieves at least 125% of the 2002 model year city fuel economy, and (4)

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

### ***Other rules***

In general, the credit for purchasing any of these alternative power vehicles is taken by the vehicle owner, including the lessor of a vehicle subject to a lease, in the year the vehicle is placed in service. A vehicle must be used predominantly in the U.S. to qualify for the credit.

This is a very general discussion of these new provisions. If you are contemplating making a purchase as described above, you should consult with your tax advisor.

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