

A Q&A on the Electric Vehicle Tax Credit

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The Inflation Reduction Act of 2022 (the Act), recently signed by the President, includes changes to the Plug-in Electric Vehicle Tax Credit (now known as the Clean Vehicle Credit). This change will impact individuals who have either already purchased an electric vehicle in 2022 and/or are waiting on delivery or plan to purchase an electric vehicle in the future. The Act, among other changes, eliminates the vehicle limitation of 200,000 per manufacturer for vehicles placed in service after 2022.

We have received an influx of questions about the electric vehicle tax credit provisions and changes that will take effect with the Act – which is why we are providing a Q&A to answer the common questions that we have received thus far.

The Plug-In Electric Vehicle Tax Credit under Internal Revenue Code (IRC) Section 30D was originally enacted with the Energy Improvement and Extension Act of 2008 and has been extended multiple times since its enactment. Under the original codification, qualifying vehicles purchased for either personal or business use were eligible for a tax credit between \$2,000 and \$7,500 depending on the battery's level of energy output. The credit phased out beginning with the second calendar quarter following the calendar quarter in which vehicles produced by the manufacturer exceeded 200,000.

Q: Will the currently available electric vehicles still qualify for the credit?

A: Not all of them. Under the Act, there will be new mineral and battery component requirements as well as the Manufacturer Suggested Retail Price (MSRP) cap. Lastly, the final assembly of the vehicle must occur in the U.S.

Most electric vehicle models currently eligible for the credit would become ineligible for the credit because of the new mineral and battery component requirements. The mineral requirements are met if a certain percentage of critical minerals are extracted, processed, or recycled in the U.S. Likewise for the battery component, a certain percentage of the battery must be manufactured or assembled in the U.S. The Act separates the original \$7,500 credit into two components. The maximum credit for meeting the new mineral requirement is \$3,750, and the same amount is available for a vehicle that meets the battery component requirement, for a total maximum credit of \$7,500. NONE of the models available now would be eligible for the full credit of \$7,500 since most electric vehicles currently on the market do not meet the battery requirement.

Vans, SUVs, and pickup trucks are capped at an MSRP of \$80,000 and all other vehicles (including passenger cars) are capped at \$55,000. So, if you're thinking about purchasing a Tesla, only certain models of the 2022 Tesla Model 3 would be eligible under the pricing cap (notwithstanding the mineral and battery component requirements).

Q: Is there a cap on the credits available if a manufacturer produces too many qualifying clean vehicles?

A: No, there will no longer be a limit on the number of vehicles eligible for the credit as that limitation has been removed. In the past, if a manufacturer produced electric vehicles over the production cap set by the IRS, then those vehicles produced over the cap would not be eligible for the credit. For example, Tesla often produced over 200,000 electric vehicles in a year, so the 200,001st vehicle and onward would not be allowed a credit.

Q: If I purchase a vehicle that is eligible for the credit, will I still be able to claim the tax credit?

A: That depends. There will be income limits imposed on those claiming the credit – based on the lesser of your current year or prior year Modified Adjusted Gross Income (MAGI). MAGI is calculated by taking your Adjusted Gross Income and adding back certain items of income and deductions:

- IRA deductions
- Deductions for student loan interest or tuition
- Passive income or loss
- Excluded foreign income
- Rental losses
- Interest from savings bonds used to pay college expenses
- Half of the self-employment tax
- Employer-paid adoption expenses
- Any losses from publicly traded partnerships

If filing joint or as surviving spouse, MAGI cannot be more than \$300,000. If you file as head-of-household, the limit is \$225,000. Remaining taxpayers cannot have MAGI over \$150,000 to claim the credit.

Q: Are dealers allowed to reduce the MSRP of the eligible clean vehicle by the credit?

A: Yes – under the Act, there will be a program to make advance payments to dealerships whereby the dealership can reduce the MSRP of eligible clean vehicles. The kicker: The purchaser must meet the MAGI income limits to still qualify for the MSRP reduction. If the purchaser takes the MSRP reduction but exceeds the MAGI limit, the credit will be recaptured on the taxpayer's income tax return and tax will be owed on the credit.

Q: How will the credits be tracked?

A: Only one credit per eligible clean vehicle is permitted and dealers will be required to provide documentation to purchasers and to the IRS that includes the following information:

- Purchaser's name
- Purchaser's identification number
- VIN of the vehicle
- Battery capacity of the vehicle
- Verification of initial ownership
- Amount of the credit

Q: Can a taxpayer receive tax credits if they purchase more than one qualified electric car?

A: It appears that there are no limitations if a taxpayer purchases multiple eligible vehicles as long as they meet the other criteria. There is only one credit per VIN since the VIN must be reported to the IRS when claiming the credit.

Q: When do the new clean vehicle credit provisions begin?

A: The effective date of the new clean vehicle credit provisions is the date that the Act was signed, which is August 17, 2022.

Q: Is there transition relief?

A: Yes. If a plug-in electric vehicle (under the old rules) was purchased or if a written binding contract was entered into in 2022 PRIOR to August 17, 2022 **AND** has not been placed in service until after the effective date, then the vehicle may be eligible for the credit under the old rules.

Q: Will the credit be difficult to receive?

A: While the removal of the 200,000 limitation appears to be beneficial for manufacturers of electric vehicles, the other modifications to Section 30D limit credit eligibility significantly. The critical minerals and battery component requirements will make it difficult for manufacturers to produce electric vehicles that are credit eligible, at least in the short term.

Contact Us

If you have any questions about the clean vehicle credits, contact your client service partner or:

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