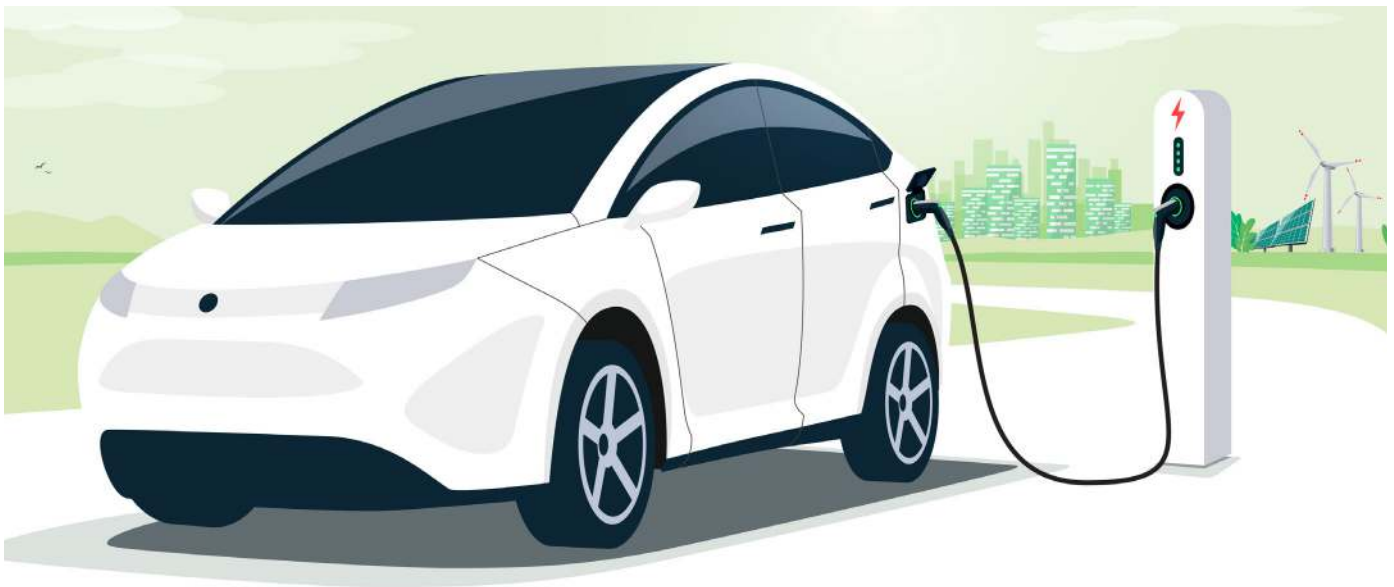


Demystifying the Inflation Reduction Act: The Clean Vehicle Tax Credit

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Regardless of whether you approve of the most recent spending bill out of Washington D.C. or think that “Inflation Reduction Act” is a misnomer, now that it has been passed by Congress and signed by the President (*Aug. 16, 2022*), it is law.

The best approach at this point for both individual and corporate taxpayers is to take advantage of the tax incentives that the legislation provides. Case in point – the Clean Vehicle Credit.



Here’s what you need to know:

Clean Vehicle Credit

The Act’s *Clean Vehicle Credit* replaces the current *Qualified Plug-in Electric Drive Motor Vehicle Credit*. It’s generally applicable to qualified electric vehicles, including plug-in hybrid electric vehicles (PHEVs) and hydrogen fuel cell electric vehicles (FCEVs) placed in service starting in 2023 through 2032. (*PHEVs typically operate on electricity until the battery is depleted, at which point they run on gas. FCEVs are typically powered by hydrogen fuel cells.*)

Key changes introduced in the *Clean Vehicle Credit* include but are not limited to the following:

- For new vehicles sold after August 16, 2022 (the date on which the Inflation

Reduction Act was enacted), only those whose final assembly is in the U.S. qualify for the credit.

- The previous cap of 200,000 vehicles per manufacturer has been repealed, so the credit is available for cars produced by any qualified manufacturer.
- The maximum credit remains at \$7,500, but different criteria determine which vehicles qualify for the maximum credit. To qualify for the full credit, a vehicle must contain certain percentages of critical materials and battery components built in the U.S. or in countries that have a free trade agreement with the U.S. Your dealer can identify which vehicles qualify and the specific credit amount they qualify for.
- The required battery capacity of qualifying cars has been increased from four to seven kilowatt hours.
- To qualify, the manufacturer's suggest retail price may not exceed \$80,000 for vans, pick-up trucks, or SUVs or \$55,000 for all other vehicles.
- You're ineligible for the credit if your modified AGI (*"modified" means your adjusted gross income plus any foreign earned income and housing exclusions and excluded income from Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico*) for both the current and prior tax year exceeds:
 - \$300,000 if you're married and file jointly
 - \$225,000 if you file as head of household
 - \$150,000 if you use any other filing status
- For vehicles placed in service after 2023, you can transfer the credit to the dealer and have it applied directly to the purchase price of the vehicle, assuming that the dealer is registered with the Secretary of the Treasury and meets the disclosure requirements.

The Transition Rule: According to the Act's transition rule, if you purchased or entered into a written binding contract to purchase, a qualifying vehicle after Dec. 31, 2021, and before Aug.16, 2022, and placed that vehicle in service on or after the date of enactment (Aug.16, 2022), you may elect to treat the vehicle as being placed in service before the date of enactment. This rule allows you to apply the prior law to the vehicle, thereby avoiding the modified AGI, vehicle price, and other restrictions under the new law.

Used Clean Vehicle Credit

A qualified buyer who acquires and places in service a previously owned clean vehicle after 2022 and before 2033 is allowed an income tax credit equal to the lesser of \$4,000 or 30 percent of the vehicle's sales price.

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To qualify for the credit:

- The vehicle must be at least two years old.
- The vehicle must have been acquired in a qualified sale, meaning:
 - Its sales price did not exceed \$25,000.
 - It was bought from a dealer.
 - The transfer of ownership is the first since the Act's enactment to a qualified buyer other than the original buyer of the vehicle. In other words, you're the second owner, not the third or fourth.
- Your modified AGI for the current and preceding taxable year cannot exceed:
 - \$150,000 if you're married and file jointly
 - \$112,500 if you file as head of household
 - \$75,000 if you use any other filing status

You can qualify for the credit once every three years. For vehicles placed in service after 2023, you can transfer the credit to the dealer to have it applied directly to the purchase price of the vehicle.

Many of the most significant provisions in the Inflation Reduction Act are focused on offsetting the costs of transitioning to green energy. For example, the Clean Vehicle Credits seeks to help to make electric cars more affordable for consumers.

Disclaimer: *The information in this SWC singlette about clean vehicle tax credits offered through the passage of the Inflation Reduction Act is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this singlette should be construed as financial advice from the staff at SWC (Stees, Walker & Company, LLP), nor is this the information contained in this singlette intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this singlette should act or refrain from acting on the basis of any information included in, or accessible through, this singlette without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*



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