Hybrid Cars and Alternative Fuel Vehicles

Vehicles Purchased or Placed in Service

The Energy Policy Act of 2005 replaced the clean-fuel burning deduction with a tax credit. A tax credit is subtracted directly from the total amount of federal tax owed, thus reducing or even eliminating the taxpayer’s tax obligation. The tax credit for hybrid vehicles applies to vehicles purchased or placed in service on or after January 1, 2006.

The credit is only available to the original purchaser of a new, qualifying vehicle. If a qualifying vehicle is leased to a consumer, the leasing company may claim the credit.

Hybrid vehicles have drive trains powered by both an internal combustion engine and a rechargeable battery. Many currently available hybrid vehicles may qualify for the tax credit.

These models have been certified for the credit in the following amounts:

† This reflects a decrease in the credit amount as of Oct. 1, 2006, due to the manufacturers meeting quarterly sales of 60,000 qualified hybrid cars — See Quarterly Sales, below.

†† This credit amount does not phase out. The full amount of the altenative fuel vehicle credit would be available for vehicles purchased on or before December 31, 2010.

Qualifed Cars and Credit Amounts

Model Year 2008
Model Year 2007
Model Year 2006
Model Year 2005
Quarterly Sales
Consumers seeking the credit may want to buy early since the full credit is only available for a limited time. Taxpayers may claim the full amount of the allowable credit 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 advance lean burn technology. For the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, taxpayers may claim 50 percent of the credit. For the fourth and fifth calendar quarters, taxpayers may claim 25 percent of the credit. No credit is allowed after the fifth quarter.

For example, F Company is a manufacturer of hybrid motor vehicles, but not advanced lean burn technology motor vehicles. F Company sells its 60,000th hybrid car on March 31, 2006.

Ms. Smith buys an F Company hybrid car on June 30, 2006, and claims the full credit.
Ms. Maple buys an F Company hybrid car on Dec. 31, 2006, and claims 50 percent of the credit.
Mr. Grey buys an F Company hybrid car on June 30, 2007, and claims 25 percent of the credit.
Mr. Green buys an F Company hybrid car on July 1, 2007, and is unable to claim the credit, because the credit has phased out for F Company vehicles.
Toyota Motor Sales, U.S.A., Inc., has submitted quarterly reports indicating that its cumulative sales of qualified vehicles to retail dealiers has reached the 60,000-vehicle limit during the calendar quarter ending June 30, 2006. Effective Oct. 1, 2006, the tax credit amounts for certified Toyota models will be reduced. The models and allowable credits may be found in news releases IR-2006-145, Toyota Hybrids Begins Phaseout on October 1and IR-2006-154, Additional Toyota and Lexus Vehicles Certified for the Energy Tax Credit.

More detailed information may be found in the Summary of the Credit for Qualified Hybrid Vehicles

Vehicles Purchased or Placed in Service 2001 through 2005
In August 2002, the IRS announced that it had certified the first hybrid gas-electric automobile as eligible for the clean-burning fuel deduction, effective 2001. Federal law allowed individuals to claim a deduction for the incremental cost of buying a motor vehicle propelled by a clean-burning fuel. A tax deduction is subtracted from income, thus reducing the amount of adjusted gross income on which the taxpayer is taxed.

The deduction is only available to the original purchaser of a new, qualifying vehicle. If a qualifying vehicle is leased to a consumer, the leasing company may claim the credit.Taken from: http://www.irs.gov