

Part 1. Computing Federal Income Tax

Vol. 1D Deductions

Chapter 1D:7 Employee's Use of a Vehicle **

§ 1D:7.09 Credit for Qualified Electric Vehicles

A credit is available for electric powered vehicles placed in service on or before December 31, 2006. The vehicle need not be used in a trade or business to qualify for the credit.

[1] In General

A taxpayer may elect to claim a credit for an amount equal to ten percent of the cost of a qualified electric vehicle. The maximum credit allowed is \$4,000. The maximum amount of credit allowed is reduced to \$1,000 in 2006 and it is not available for vehicles placed in service after December 31, 2006. The vehicle need not be used in a trade or business or for the production of income in order to claim the credit. The depreciation limits for passenger automobiles imposed by [IRC Section 280F](#) are tripled for vehicles powered primarily by electricity. See discussion of depreciation *supra*.

[2] Definition of Qualified Electric Vehicle

A qualified electric vehicle is one that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells or other portable sources of electrical current. The original use must commence with the person claiming the credit and it must be acquired for the use of the person claiming the credit, not for resale. The vehicle must be manufactured primarily for use on public streets and have four wheels. In addition, the vehicle does not qualify for the credit if it has ever been used as a non-electric vehicle. The inability to claim a credit for a vehicle converted from non-electric to electric power differs from the deduction allowed for clean-burning fuel allowed by [IRC Section 179A](#).

To qualify for the credit the vehicle must be used predominantly in the United States. The vehicle must be purchased new to claim the credit, no credit is allowed for pre-owned vehicles.

[3] Amount of Credit

The credit allowed equals ten percent of the cost of a qualified vehicle. For vehicles placed in service before January 1, 2006, the maximum credit allowed is \$4,000. For vehicles placed in service during calendar 2006 the maximum credit is \$1,000.

No credit is allowed for the portion of the vehicle for which a deduction is claimed under [IRC Section 179](#) (Election to Expense Certain Depreciable Business Expenses). The credit is eliminated for vehicles placed in service after December 31, 2006.

The amount of credit allowable is affected by other credits claimed and is limited by alternative minimum tax. To compute the maximum credit for years ending on or before December 31, 2005, first reduce regular tax by the sum of the non-refundable personal credits found in [IRC Sections 21 through 26](#), the foreign tax credit allowed by [IRC Section 27](#) and the credit for producing nonconventional fuel allowed by [IRC Section 29](#). The maximum credit for electric vehicles cannot exceed this regular tax less the tentative minimum tax for alternative minimum tax purposes found in [IRC Section 55\(b\)](#). For tax years ending after December 31, 2005, the calculation is the same with the exception that no reduction in regular income is made for the credit for nonconventional fuels under [IRC Section 29](#).

The basis of the vehicle must be reduced by the amount of the allowable credit.