

New Clean Vehicle Credit

President Biden signed into law the Inflation Reduction Act of 2022 on August 16, 2022. The legislation includes changes to the credit available for electric vehicles. The changes are complex, and phase in over time. If you are in the market for an electric vehicle, we should review the new rules to help you maximize the credit you are allowed.

One of the new rules is in effect right now. To qualify for the electric vehicle credit, final assembly of the vehicle must take place in North America.

Effective as of January 1, 2023, the manufacturer limitation is going away. Under the manufacturer limitation, once a manufacturer had sold 200,000 electric vehicles, a taxpayer's ability to take a tax credit for vehicles produced by that manufacturer began to phase out. Taxpayers are currently prevented from taking the electric vehicle credit for automobiles manufactured by General Motors and Tesla. Starting at the beginning of 2023, taxpayers will be able to take the credit for GM and Tesla vehicles once again. The manufacturer's suggested retail price (MSRP) limits are below.

The way the credit is calculated is changing later this year. We are waiting for when the rules to change waiting for the IRS issues regulations implementing the new rules. Under the previous rules, the base amount of the electric vehicle credit is \$2,500 per vehicle. The allowable credit increases to \$7,500 per vehicle based on a formula which increases the credit by \$417 for every kilowatt hour of battery capacity in excess of five.

Under the new rules, the amount of the credit will be based on two separate requirements, each one based on where the vehicle's battery is sourced:

- Taxpayers get a \$3,750 credit for meeting the critical minerals requirement, which requires that a minimum percentage of the minerals contained in the battery be sourced in the United States or a country with which the United States has a free trade agreement in effect.
- Taxpayers also can get a \$3,750 credit for satisfying the battery component requirement, which requires that a minimum percentage of the value of the components of the battery be manufactured or assembled in North America.

Taxpayers can satisfy either or both requirements, for either a \$3,750 credit for meeting one of the requirements or a \$7,500 credit if both requirements are met.

Effective January 1, 2023, the credit will also be available for new qualified fuel cell motor vehicles. New qualified fuel cell motor vehicles are vehicles propelled by power derived from one or more cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel, and that meets certain additional requirements. New qualified fuel cell motor vehicles must meet the North American final assembly requirement. They can qualify for either a \$3,750 or \$7,500 credit based on whether they

satisfy one or both of the critical minerals requirement and battery components requirements.

January 1, 2023 sees your ability to take the electric vehicle credit will be limited based on your modified adjusted gross income (MAGI). MAGI is adjusted gross income (AGI) with adjustments for income received from U.S. territories. For most taxpayers, MAGI will be equal to AGI. You may not take the credit if your MAGI exceeds the threshold amount. The threshold amount is:

- For married taxpayers filing a joint return or a surviving spouse, \$300,000.
- For taxpayers filing as head of household, \$225,000.
- For all other taxpayers (single, married filing separately), \$150,000.

These amounts are not adjusted for inflation. ***If your MAGI exceeds this amount, you should buy the electric car before the first of the year.***

Also beginning January 1, 2023, vehicles will not be eligible for the credit if they exceed an MSRP limit: \$80,000 for vans, pickup trucks, and sport utility vehicles; \$55,000 for other vehicles. **If you are looking at a higher-end electric vehicle, you need to act by the end of December.**

Unfortunately, the manufacturer limitation does not go away until January 1, so you will not be able to claim the credit for higher-end GM and Tesla vehicles that exceed the MSRP limits.

If you had a binding contract to purchase an electric vehicle as of August 15, 2022, or earlier, you can choose to apply the old rules.