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Details of the New Tax Rules for Electric Vehicles

The new law retains the maximum credit of $7,500 for 2023 through 2032. However, the IRA changes other rules of the road, as follows:

Ken Berry • Sep. 14, 2022

The new Inflation Reduction Act (IRA) enhances the tax credit available to purchasers of electric vehicles and plug-in vehicles. Generally, the changes go into effect in 2023. But while many consumers will benefit from the “new and improved” credit, others nay not qualify at all.

Currently, a purchaser of an electric vehicle or plug-in hybrid can claim a credit ranging from $2,500 to $7,500, depending on certain energy consumption factors. It isn’t limited on the vehicle’s cost.

To qualify for this credit in 2022, the following requirements must be met.

- The vehicle must have at least four wheels manufactured primarily for use on public streets, roads and highways.
- The vehicle is treated as a motor vehicle for purposes of Title II of the Clean Air Act.
- The vehicle has a gross vehicle weight rating (GVWR) of less than 14,000 pounds.
- The vehicle is propelled to a significant extent by an electric motor that draws electricity from a battery that has a capacity of at least 4w hours and is capable of being recharged from an external source of electricity.
- The taxpayer is the original user of the vehicle.

Also, the credit is subject to a phase-out, based on sales of the manufacturer. It begins to phase out when a manufacturer has sold at least 200,000 qualifying vehicles for domestic use. Finally, be aware that the electric vehicles credit is nonrefundable.

The new law retains the maximum credit of $7,500 for 2023 through 2032. However, the IRA changes other rules of the road, as follows:

Income limits: A single filer can’t claim the credit if their modified adjusted gross income (MAGI) exceeds $150,000. This limit is doubled to $300,000 for joint filers.

Price limits: A consumer won’t qualify for the credit for a van, SUV or pickup truck costing more than $80,000. The price limit for other passenger vehicles is $55,000. So no credit is available for certain high-end vehicles.

Domestic requirements: To encourage domestic production, the vehicle must be powered by batteries whose materials are sourced from the U.S. or its free trade partners and assembled in North America. This could present problems for some vehicle manufacturers.

No manufacturer threshold: The new law eliminates the 200,000 vehicle threshold for vehicle manufacturers. Nevertheless, this threshold continues to apply for 2022, including current restrictions for vehicles of manufacturers already over the limit.

Point of sale: Consumers who qualify for the credit may benefit from an immediate price reduction at the point of sale. But this benefit may not be available until 2024. Expect the IRS to issue guidance.

Used vehicles: Significantly, the IRA also creates a credit of up to $4,000 for purchasers of used vehicles, with yet another complex set of rules. The credit is available to single filers with an AGI below $75,000 or $150,000 for joint filers; vehicle can't cost more than $25,000; and models must be at least two years old.

In addition, buyers of used vehicles qualify for the credit only if it's the first sale of the used vehicle and they can only claim the credit once every three years.

Not so simple, right? The crossover from the old rules to the new ones is sure to cause confusion. Make your clients aware of the changes and encourage them to contact you if they have any questions.

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