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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 may 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.

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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

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