

IRS Certifies Hybrid Vehicles for Credit

The Energy Tax Incentives Act of 2005 provided a new credit for hybrid motor vehicles effective beginning in 2006. Under this law, the credit can range from \$650 to \$3,400, depending on the vehicle's fuel efficiency and consumption reductions. Over the last few months, the IRS has issued a number of certified credit amounts, and they are as follows:

<u>Vehicle</u>	<u>Year</u>	<u>Certified Credit Amount</u>
Ford Escape Hybrid Front WD	2006	\$2,600
Ford Escape Hybrid 4WD	2006	\$1,950
Lexus GS 450h	2007	\$1,550
Lexus RX 400h 2WD and 4WD	2006	\$2,200
Mercury Mariner Hybrid 4WD	2006	\$1,950
Toyota Camry Hybrid	2007	\$2,600
Toyota Highlander 2WD and 4WD	2006	\$2,600
Toyota Prius	2005, 2006	\$3,150

Buyer Beware. Potential hybrid buyers need to be aware of a two potential problems with the above amounts. (Caution – these rules were obviously written to keep some Washington tax attorneys and accountants fully employed!)

First, the credit will be phased out over four calendar quarters (i.e., over a total of 12 months) starting with the second calendar quarter following the post-2005 calendar quarter during which the manufacturer first sells a cumulative total of at least 60,000 qualifying vehicles for use in the United States. Therefore, purchasers of these vehicles may claim the full amount of the allowable credit for purchases made through the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th vehicle. For purchases made during the second and third calendar quarters after the quarter in which the 60,000th vehicle is sold, a purchaser may only claim 50% of the credit. For purchases made during the fourth and fifth calendar quarters, purchasers may claim only 25% of the credit. No credit is allowed for purchases made after the fifth quarter. So, you may want to advise clients seeking the credit to buy early, especially if they're considering the popular models, such as the Toyota Prius (which historically has sold at about 100,000 per year).

Second, personal use vehicles qualify for the credit. However, for such vehicles, the credit reduces regular tax, but it's not refundable nor is it allowable against alternative minimum tax. Further, any credit amount that can't be used in the year the vehicle is purchased is lost forever - no carryover is available. So, you probably need to do a tax projection before promising any specific credit savings amount to clients who are historically at or near the AMT or who have relatively low taxable income.

The bottom line is this: if you are thinking of purchasing one of these vehicles, you should make sure that you will not be subject to the alternative minimum tax, and then if you are not, you should make the purchase as soon as possible.