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The Clean Vehicle Tax Credit Under Section 30D

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The Inflation Reduction Act of 2022 (IRA) created several new incentives for clean vehicles. Under prior law, taxpayers could claim a credit for purchasing and placing in service "new qualified plug-in electric drive motor vehicles" The IRA revised Section 30D into a new "clean vehicle credit," wherein taxpayers, both individuals and businesses, may claim a credit worth up to $7,500 for vehicles placed in service between 2023 and 2032. For clean vehicles used in a trade or business, the credit is part of the general business credit under Section 38.

New Clean Vehicles

Taxpayers may claim a credit for "new clean vehicles."[1] A new clean vehicle is one that meets eight requirements:

- The original use must commence with the taxpayer;
- It must be acquired for use or lease by the taxpayer and not for resale;
- It must be made by a qualified manufacturer;
- It must be treated as a motor vehicle for purposes of Title II of the Clean Air Act;
- It must have a gross vehicle weight rating of less than 14,000 pounds;[2]
- It must be propelled to a significant extent by an electric motor that draws electricity from a battery, which has a capacity of not less than 7 kilowatt hours and is capable of being recharged from an external source of electricity;
- The final assembly of the vehicle occurs within North America;
- The seller of the vehicle provides a report to the taxpayer and the IRS with certain information, including the vehicle identification number (VIN); and
- It must be a motor vehicle that is manufactured primarily for use on public streets, roads, and highways, and which has at least four wheels.

Critical Mineral and Battery Component Requirements

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The $7,500 new clean vehicle credit consists of two separate $3,750 credits based on component requirements. The critical mineral component requires that the applicable percentage (by value) of critical minerals in the vehicle's battery are extracted or processed in the U.S. or a country with a U.S. free-trade agreement, or are recycled in North America. The applicable percentage is 40% for vehicles placed in service after the Department of Treasury (Treasury) issues proposed guidance, and prior to 2024. The applicable percentage increases every year by 10% through 2027, when the applicable percentage is 80%. For vehicles placed in service between 2029 and 2032, the applicable percentage is 100%. If the vehicle is placed in service after 2024, critical minerals in batteries cannot be extracted, processed, or recycled by "foreign entity of concern" (including instrumentalities of China, Russia, Iran, North Korea).

The battery component requires that a certain percentage of the battery is manufactured or assembled in North America. The applicable percentage is 50% for vehicles placed in service after Treasury issues proposed guidance in 2023. The applicable percentage increases every year by 10% through 2029 when 100% of the battery components must be manufactured or assembled in North America. For vehicles placed in service after 2023, no components of the battery can be manufactured by a foreign entity of concern.

Guidance on the foregoing component requirements is forthcoming.

Final Assembly in North America

For new clean vehicles sold after August 16, 2022, the vehicle must undergo final assembly in North America. "Final assembly" is defined as the process by which a manufacturer produces a new clean vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer or importer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle. On August 16, Treasury issued a list of frequently asked questions (FAQs) regarding which vehicles qualify, and how taxpayers may determine whether a vehicle's final assembly occurred in North America. The Department of Energy's Alternative Fuels Data Center (AFDC) developed a list of Model Year 2022 and 2023 electric vehicles that "likely" meet the North America final assembly requirement. To identify whether a specific vehicle's final assembly occurred in North America, dealers and consumers should enter the 17-character VIN into the National Highway Traffic Safety Administration's VIN Decoder tool.

Guidance on the foregoing final assembly requirements is forthcoming.

Adjusted Gross Income Requirements

An individual taxpayer may not claim a new clean vehicle if their modified adjusted gross income exceeds the threshold amount. The threshold amount is as follows:

- $300,000 for married filing joint and surviving spouse;
- $225,000 for heads of household; and
- $150,000 for others, including single filers.

Manufacturer's Suggested Retail Price

An individual may not claim new clean vehicle credit if the manufacturer's suggested retail price (MSRP) exceeds the applicable limitation. The applicable limitation is as follows:

- $80,000 for SUVs, vans, and pickup trucks
- $55,000 for other vehicles

Read more about incentives for clean vehicle manufacturers here.

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[1] Under Section 25E, an individual taxpayer may claim a separate credit for a previously owned clean vehicle. The previously owned clean vehicle is equal to the lesser of $4,000 or the amount equal to 30% of the sale price, which cannot exceed $25,000. The credit is not available for businesses.

[2] Section 45W provides a separate credit for commercial clean vehicles, including those with a gross vehicle weight rating in excess of 14,000 pounds.

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