

Plug-in Electric Drive Vehicle Credit

A recent Wall Street Journal article entitled Cash for Clubbers has raised a number of questions about a new credit available for the purchase of qualified plug-in electric drive motor vehicles. Some taxpayers are of the impression that this credit, which ranges from \$2,500 - \$15,000, is widely available for the purchase of “golf carts”. This memo is intended to clear up some of those misconceptions. Certain motor vehicles and low-speed vehicles (LSV’s) qualify for the credit. An LSV is typically a light weight electric drive vehicle that is designed to specific guidelines. To be qualified as an LSV, it must be primarily designed for on-road use. It also must have a maximum speed between 20 - 25 mph and have a minimum 4 hours battery capacity. The manufacturer of the vehicle should have received approval by the IRS that a specific model qualifies. If you plan to buy one, be sure to obtain a certificate from your dealer indicating the model you have chosen has been approved to qualify for the credit. Be mindful that the credit limits and the availability of the credit changes for vehicles purchased after 12/31/09. The following is a brief overview of the credit as it applies in 2009 and what to expect in 2010.

The Credit for 2009

Taxpayers are entitled to receive a credit ranging from a category maximum of \$7,500 to \$15,000 for the purchase of **each** qualified electric vehicle based on the weight of the vehicle. Most vehicles that you will purchase will have gross vehicle weight of not more than 10,000 pounds and will be capped at the \$7,500 maximum. Most low-speed vehicles (LSV) will fall under this category (due to its very low weight). The credit is calculated as follows:

- \$2,500 base amount of the credit (minimum)
- \$417 additional credit for every hour of battery capacity past four hours, up to a maximum of \$5,000

For example, if you purchase a qualified vehicle that has a battery capacity of five hours, your tentative credit for the purchase would be **\$2,917** (\$2,500 base credit plus \$417).

The Credit for 2010

For LSV’s purchased after 12/31/09, the credit is calculated without use of a base amount (\$2,500 in the above example). The credit is calculated by multiplying the sales price of the LSV by 10% and is limited to a maximum of \$2,500, as opposed to a minimum of \$2,500 for the 2009. For vehicles defined as “motor vehicles” under the Clean Air Act, a base credit of \$2,500 is available plus an additional \$417 each hour of battery capacity past four hours,

Other Limitations

The credit is limited to the taxpayer's total tax as shown on the return for the entity/individual purchasing the vehicle, after reduction for the following credits: the foreign tax credit, the child and dependent care credit, the elderly credit, education credits, and the retirement savings contributions credit. If your combined credits are more than your tax, the remaining electric vehicle credit not used is lost.

There is a limitation on the availability of the credits that is based on the manufacturer’s production. The credit phases out after production of a model reaches 200,000. Ask your dealer about this before you buy.

This memo is very limited in scope and application. Please consult your trusted [WR tax professional](#) with any questions.