

## **The Credit Card Competition Act**



**The Start  
of a New  
Interchange  
Battle?**

## Get to Know the New Clean Vehicle Credits



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**A**s a result of the Inflation Reduction Act, there were several favorable changes to the tax credits for electric vehicles, with most changes effective January 1, 2023. The new legislation enhances the prior electric vehicle credit in addition to supporting domestic production. While there may be greater incentive to purchase electric vehicles, the Inflation Reduction Act also brings new requirements and limitations.

The Clean Vehicle Credit, previously known as the New Qualified Plug-In Electric Drive Vehicle Credit, has expanded under the new law. There are two separate credits, a \$3,750 credit for the critical minerals requirement and a \$3,750 credit for the battery component. Each of these credits require a minimum percentage of minerals or components used to make the battery to be extracted or processed in the U.S. or countries with which the U.S. has a free trade agreement, or components which are recycled in North America. The effective date for the battery and mineral test will be the date when the IRS issues guidance which is expected in 2023. In addition, the final assembly of the vehicle needs to be in North America which has its own set of specific criteria. This requirement was effective as of August 16, 2022.

The seller of the electric vehicles needs to furnish all required information to the buyer and the IRS. The required information includes the following: name and identification number of the taxpayer, VIN number, battery capacity, verification of original use of the vehicle, and maximum credit allowable to the taxpayer.

The credit is not allowed when modified adjusted gross income levels in the year of purchase or the preceding year (whichever is less) are above \$300,000 for taxpayers filing jointly or as a surviving spouse, \$225,000 for head of household, or \$150,000 for single taxpayers. There are also limits on the price of the vehicles. The credit is only available for a van, SUV, and pickup with MSRP \$80,000 or less or any other vehicle with MSRP \$55,000 or less. The clean vehicle credit will no longer

be allowed for any vehicle placed in service after December 31, 2032.

The new legislation also offers a credit for previously owned electric vehicles. A qualified buyer who acquires and places in service a previously owned clean vehicle beginning in 2023 is allowed an income tax credit equal to the lesser of \$4,000 or 30% of the vehicle's sale price. For a previously owned clean vehicle to qualify, the model year needs to be at least two years earlier than the calendar year in which the taxpayer acquires it. In addition, the price of the vehicle must be \$25,000 or less and be the very first transfer from the original buyer. In determining who is a qualified buyer, they cannot be an individual claimed as a dependent nor could have been claimed as a dependent. Moreover, the credit can only be taken once in a three-year period. The income thresholds are lower for this credit as compared to the purchase of a new clean vehicle. The credit is eliminated if the taxpayer's modified adjusted gross income for the year of purchase or the preceding year exceeds \$150,000 for married filing jointly or as a surviving spouse, \$112,500 for head of household, or \$75,000 for single filers. Again, the credit expires after December 31, 2032.

Furthermore, both the new and previously owned credits allow the buyer of the new vehicle to transfer the credit to the seller, which will result in a lower purchase price to the buyer. The seller will need to disclose the amount of the advanced credit to the IRS. This is effective for vehicles placed into service beginning January 1, 2024. If you're thinking about taking advantage of this advanced credit, it's important to be aware of the income thresholds. If your modified adjusted gross income falls above the thresholds, the credit will need to be repaid by the buyer.

The expansion of the clean vehicle credit is wonderful news for taxpayers looking to go green; however, it remains quite complex so reach out to a tax advisor for further clarification before making an electric vehicle purchase.