December 2024

Tax Credits for EVs: What's New?

Tax credits for electric vehicles (EVs) were expanded and thoroughly revamped when Congress enacted the Inflation Reduction Act back in 2022. The new tax credit regime became effective in 2023.

How has it been working out? Not quite as expected.

As a result of the new law, there are four ways you can benefit from a federal tax credit for an EV:

1. Purchase an EV and claim the clean vehicle credit.
2. Lease an EV and benefit from an EV dealer discount.
3. Purchase a used EV that qualifies for the previously owned clean vehicle credit.
4. Purchase an EV for business use and claim the commercial clean vehicle credit.

You can claim only one of the credits per vehicle (you don't claim the credit yourself if you lease—the dealer gets it and can pass all or some of it to you).

Which method do you think is the most popular? If you said purchasing an EV and claiming the clean vehicle credit, you'd be wrong. In fact, leasing an EV is the most popular way to benefit from an EV credit.

1. Clean Vehicle Credit

This credit may be claimed whether a qualifying EV is used for personal driving, business driving, or both. The maximum credit is $7,500.[1] The credit is available for new EVs assembled in North America that have a gross vehicle weight rating (GVWR) of less than 14,000 pounds. They may be pure EVs or plug-in hybrid EVs (PHEVs).

The clean vehicle credit is equal to the largest tax credit you can get for a passenger EV. Unfortunately, the clean vehicle credit is subject to so many restrictions that many people can't take advantage of it.

Income Caps

First, there are income caps on who can qualify for the clean vehicle credit. These are not adjusted for inflation, so they have not changed for 2024.

The clean vehicle credit may not be claimed by taxpayers whose modified adjusted gross income (AGI) is more than[2]

- $300,000 for joint return filers and surviving spouses,
- $225,000 for heads of household, or
- $150,000 for unmarried taxpayers and married taxpayers who file separately.

You can use your modified AGI for the prior year if it is lower.

Vehicle Price Caps

The clean vehicle credit is allowed only if the manufacturer's suggested retail price (MSRP) for the vehicle does not exceed[3]

- $80,000 for vans, sport utility vehicles, and pickup trucks, or
- $55,000 for any other vehicle.

Like the income caps, the vehicle price caps are not adjusted for inflation.

Domestic Content Requirements

The domestic content requirements for critical minerals and components used in EV batteries are what has really limited the clean vehicle credit. That's because the clean vehicle credit is actually two separate credits:[4]

1. A $3,750 credit if the EV complies with the domestic sourcing requirements for critical minerals used in the battery
2. A $3,750 credit if the EV satisfies domestic content requirements for battery components

Only EVs that satisfy both requirements get the full $7,500 clean vehicle credit. Those that satisfy only one requirement get a $3,750 credit.

The domestic sourcing requirements become stricter each year, in 10 percent increments.

- The critical minerals sourcing percentage rises from 40 percent in 2023 to 80 percent in 2027 and later.
- The domestic battery component percentage rises from 40 percent in 2023 to 100 percent in 2029 and later.

Many EVs don't qualify for a full credit or for any credit at all. Indeed, the number of EVs that qualified for the credit fell from 43 at the end of 2023 to 19 at the start of 2024.

As of November 1, 2024, 28 models qualified for the full $7,500 credit. To find the current list of qualifying EVs, go to
https://fueleconomy.gov/feg/tax2023.shtml. Once on the page, select the date you plan to take delivery. Next, scroll down to see the vehicles that qualify.

Credit May Be Claimed at Point of Sale

Starting in 2024, credit eligibility and the amount are determined at the time of sale by the EV dealer. The dealer submits a time-of-sale report to the IRS online, and it is accepted or rejected in real time. The dealer must provide you with a copy of the report.

If the vehicle qualifies for a credit, you have two options:[5]

1. You can claim the credit on your tax return for the year in which you placed the vehicle in service, using IRS Form 8936.
2. You can elect to transfer the credit to the dealer so they can apply the credit amount to your final purchase cost. This allows you to receive the benefit of the credit at the time of sale. The dealer will be reimbursed by the IRS, but you must still fill out Form 8936 to report your eligibility for the credit and your decision to transfer the credit to the dealer.

Obviously, you should claim the credit at the time of sale—why wait? Besides, there's a possible bonus.

Bonus. If you transfer the credit to the dealer, you could get a huge additional bonus: you avoid the rule that the personal credit is non-refundable (limited to your tax liability for the year).

The IRS announced that if it turns out you don't owe enough tax for the year to qualify for the full $7,500 (or $3,750) credit, neither you nor the dealer will have to repay any part of the credit.[6]

Even if you transferred the clean vehicle credit to the dealer, you must file Form 8936, Clean Vehicle Credits, when you file your tax return.

Limit. If you purchase multiple EVs in the same year, you may elect to transfer the credit to the dealer only two times.[7]

2. Leasing an EV (This May Be Your Best Option)

If you can't find a qualifying new EV to purchase, you should look into leasing one instead. If you lease, you won't be alone. Currently, leasing EVs is much more popular than purchasing them outright. During the first quarter of 2024, 63.6 percent of all EVs were leased.

EV leasing works like this: the dealer claims the $7,500 commercial clean vehicle credit for the EV and passes the savings on to you, the customer, in the form of lower monthly lease payments, smaller down payments, or rebates. You do not apply for any tax credit. The IRS says this is perfectly okay, so long as the transaction is a true lease and not a disguised sale.[8]

The commercial clean vehicle credit is not subject to most of the restrictions that apply to the clean vehicle credit, so there are many more EV models available for lease that benefit from the credit. In short, if you lease, you'll likely have far more EVs to choose from than if you buy an EV and seek the clean vehicle credit.

Furthermore, the monthly payments to lease an EV can be much lower than the payments on a loan.

Beware. There is no law requiring the dealer to pass on any part of the commercial vehicle credit to its leasing customers, and deals vary from dealer to dealer, so it pays to shop around.

Leasing an EV has other advantages as well. EV technology is rapidly improving. Thus, you may prefer to lease an EV for two or three years, and then discard it and get a new EV with the latest battery technology.

3. Previously Owned Clean Vehicle Credit

The third way to claim a tax credit for an EV is to purchase a used one. Tax credits for used EVs are not subject to the North American assembly, critical minerals, or battery component rules. As a result, more used EV models qualify for a credit than new ones.

Carmakers provide a warranty for EV batteries that lasts eight years or 100,000 miles, whichever comes first. Thus, if still enough time and miles remain on the battery warranty, a used EV can be a good deal. Moreover, more and more used EVs become available each year.

But there are significant limitations on this clean vehicle credit for previously owned vehicles.

You can obtain the credit only if you purchase a used EV from a dealer, not from a private party.[9]

Also, the income caps are 50 percent lower than when you buy a new EV. The purchaser's AGI for the year the vehicle is placed in service or the prior year must be less than[10]

- $150,000 for joint-return filers and surviving spouses,
- $112,500 for heads of household, or
- $75,000 for single taxpayers and married taxpayers who file separately.

The credit is limited to EVs that are at least two years old—that is, the model year must be at least two years earlier than the calendar year when you buy it. Thus, during 2024 the credit is available for EVs with model years 2022 and earlier.[11]

The previously owned credit is available only for EVs that are sold for $25,000 or less. Sales price includes all dealer-imposed costs and fees not required by law. It doesn't include costs or fees required by law, such as taxes, title, and registration fees.[12]

The credit equals 30 percent of the purchase price, up to a maximum credit of $4,000.[13] You can claim the used EV credit only once every three years.

You can transfer the previously owned credit at the point of sale to the dealer, the same as for the new EV clean vehicle credit. Like with new EVs, if you transfer the credit to the dealer, you won't have to repay any part of the credit if it exceeds your tax liability for the year.

If you do not transfer the credit, it is non-refundable when you file your taxes, so you can't get back more on the credit than you owe in taxes. You also can't carry over any unused clean vehicle credit to future tax years.[14]

The dealer should give you a time-of-sale report when you complete your purchase, which you should keep in your tax records. Even if you transferred the credit to the dealer, you must file Form 8936, Clean Vehicle Credits, when you file your tax return.

A list of EVs that qualify for the used EV credit can be found at Federal Tax Credits for Pre-owned Plug-in Electric and Fuel Cell Vehicles. Scroll down once you hit this page to see the full list.

4. Commercial Clean Vehicle Credit

If you purchase an EV for business driving, you can qualify for the commercial clean vehicle tax credit. This credit is available for battery electric vehicles or PHEVs with four wheels that have their final assembly in the United States. The EV must be acquired for use or lease, not resale.[15]

This commercial credit is not subject to most of the restrictions that apply to the clean vehicle credit, including the income caps, price caps, or domestic sourcing requirements. Thus, far more EVs qualify for the commercial credit than for the clean vehicle credit.

For EVs with a GVWR less than 14,000 pounds, the credit is equal to the *lesser* of[16]

- 15 percent of the vehicle's basis (30 percent if the vehicle is fully electric—that is, not partly powered by a gasoline or diesel engine), or
- the incremental cost of the vehicle.

The "incremental cost" is the excess of the EV's purchase price over the price of a comparable non-EV. The IRS accepts $7,500 as the incremental cost of all EVs up to 14,000 pounds other than compact car PHEVs. For compact car PHEVs, the incremental cost is $7,000.[17]

The maximum credit is $7,500—the same as the clean vehicle credit. Thus, the commercial clean vehicle credit can never be larger than the full clean vehicle credit, but it can be smaller depending on the cost of the EV and the percentage of business use.

Example. Sterling purchases a 2024 Tesla Model 3 for $45,000. He drives the car 50 percent for business, so his business basis is $22,500. He qualifies for a $6,750 commercial clean vehicle credit (30 percent x $22,500 = $6,750).

Second possible choice. This Tesla model qualifies for the full clean vehicle credit, so if Sterling could claim that credit instead, he would get a $7,500 credit.

Trouble. Sterling, a single taxpayer, has an AGI over $150,000, so he can't claim the $7,500 clean vehicle credit.

If you claim the commercial clean vehicle credit, you can't also claim the clean vehicle credit for the same vehicle.[18]

One good thing about the commercial clean vehicle credit: it is part of the general business credit. Any amount that can't be used to reduce the current year's tax liability can be carried forward 20 years or carried back three years.[19]

You can't claim this credit at the point of sale by transferring it to the dealer like you can with the clean vehicle credit and the previously owned clean vehicle credit. You must claim the commercial credit on your tax return. Partnerships, multi-member LLCs taxed as partnerships, and S corporations must file IRS Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit. All other taxpayers report this credit on line 1y in Part III of Form 3800, General Business Credit.[20]

Takeaways

Here are four takeaways from this article:

1. There are three separate tax credits available when you are "purchasing" an EV:

- the clean vehicle credit,
- the previously owned clean vehicle credit, and
- the commercial clean vehicle credit.

The first two credits are available for EVs used for personal or business driving. The commercial clean vehicle credit is available only for business driving.

2. The clean vehicle credit is $7,500 maximum. But the credit is subject to

- income caps,
- price caps, and
- domestic sourcing requirements that can limit its availability.

The previously owned clean vehicle credit is a maximum of $4,000 and is subject to income caps and a $25,000 price cap. Starting in 2024, both credits can be claimed at the point of sale by transferring the credit to the dealer.

3. The commercial clean vehicle credit is also $7,500 maximum, but it is not subject to income caps, price caps, or domestic sourcing requirements. Unlike the other EV credits, this credit can be based on the EV's tax basis. Also, you may not transfer the commercial credit to the dealer at the point of sale.

4. Dealers that lease EVs are allowed to claim the $7,500 commercial clean vehicle credit and then pass all or part of it on to their customers in the form of lower monthly payments, smaller down payments, or rebates. Currently, almost two-thirds of all EVs are being leased, not purchased.

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1 IRC Section 30D(c)(2).
2 IRC Section 30D(f)(10).
3 IRC Section 30D(f)(11).
4 IRC Section 30D(b).
5 FS 2024-26, dated July 2024, Topic H.
6 Ibid., Q.4.
7 Ibid., Q.7.
8 FS 2024-26, dated July 2024, Topic G: Q.5, Q.6.
9 IRS Credits and Deductions—Used Clean Vehicle Credit, updated Nov. 15, 2024.
10 Ibid.
11 Ibid.
12 Ibid.
13 Ibid.
14 FS 2024-26, dated July 2024, Topic H: Q.1, Q.4.
15 IRC Section 45W(c).
16 IRC Section 45W(b).
17 IRS Notice 2024-5.
18 Reg. Section 1.30D-4(a)(3).
19 IRC Section 45W(a); IRC Section 39(a)(4).
20 IRS Form 8936, Qualified Plug-in Electric Drive Motor Vehicle Credit (Rev. January 2023); IRS Form 3800, General Business Credit (2023).