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12. Electric and Clean-Fuel Vehicles

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What's New

Clean-fuel vehicle and refueling property deduction. The clean-fuel vehicle and refueling property deduction will expire for vehicles placed in service after December 31, 2005.

Alternative motor vehicle credit. The Energy Policy Act of 2005 added a new credit for alternative motor vehicles placed in service after 2005. For details, see Form 8910, Alternative Motor Vehicle Credit.

Reminder

Maximum qualified electric vehicle credit. The maximum qualified electric vehicle credit will be 25% of the otherwise allowable amount in 2006.

Introduction

You are allowed a limited deduction for the cost of clean-fuel vehicle property and clean-fuel vehicle refueling property you place in service during the tax year. Also, you are allowed a tax credit of 10% of the cost of any qualified electric vehicle you place in service during the tax year.

You can take the electric vehicle credit or the deduction for clean-fuel vehicle property regardless of whether you use the vehicle in a trade or business. However, you can take a deduction for clean-fuel vehicle refueling property only if you use the property in your trade or business.

Topics - This chapter discusses:

- The deduction for clean-fuel vehicle property
- The deduction for clean-fuel vehicle refueling property
- Recapture of the deductions
- The electric vehicle credit

- Recapture of the credit

Useful Items - You may want to see:

Publication

- 463 Travel, Entertainment, Gift, and Car Expenses
- 544 Sales and Other Dispositions of Assets
- 946 How To Depreciate Property

Form (and Instructions)

- 8834
  Qualified Electric Vehicle Credit
- **8910** <<< this form is attached on the CD
  Alternative Motor Vehicle Credit

See chapter 14 for information about getting publications and forms.

Definitions

The following definitions apply throughout this chapter.

Clean-burning fuels. The following are clean-burning fuels.

1. Natural gas.
2. Liquefied natural gas.
3. Liquefied petroleum gas.
4. **Hydrogen.**
5. Electricity.
6. Any other fuel that is at least 85% alcohol (any kind) or ether.

Motor vehicle. A motor vehicle is any vehicle that has four or more wheels and is manufactured primarily for use on public streets, roads, and highways. It does not include a vehicle operated exclusively on a rail or rails.

Nonqualifying property. This is property used in the following ways.

1. Predominantly outside the United States.
2. Predominantly to furnish lodging or in connection with the furnishing of lodging.

3. By certain tax-exempt organizations.
4. By governmental units or foreign persons or entities.

Deductions for Clean-Fuel Vehicle and Refueling Property

You are allowed a limited deduction for the cost of clean-fuel vehicle property and clean-fuel vehicle refueling property. These deductions are allowed only in the tax year you place the property in service.

You cannot claim these deductions for the part of the property's cost you claim as a section 179 deduction. For information on the section 179 deduction, see Publication 946.

Deduction for Clean-Fuel Vehicle Property

The deduction for this property may be claimed regardless of whether the property is used in a trade or business.

Clean-fuel vehicle property. Clean-fuel vehicle property is either of the following kinds of property.

1. A motor vehicle (defined earlier) produced by an original equipment manufacturer and designed to be propelled by a clean-burning fuel. These include designated hybrid gas-electric automobiles which, at this time, only include the Ford Escape Hybrid, Honda Accord Hybrid, Honda Insight, Honda Civic Hybrid, Lexus RX 400h, Mercury Mariner Hybrid, Toyota Highlander Hybrid, and Toyota Prius. Those designated automobiles do not qualify for the electric vehicle credit. For other than those designated automobiles, the only part of a vehicle's basis that qualifies for the deduction is the part attributable to:
   a. A clean-fuel engine that can use a clean-burning fuel,
   b. The property used to store or deliver the fuel to the engine, or
   c. The property used to exhaust gases from the combustion of the fuel.

2. **Any property installed on a motor vehicle (including installation costs) to enable it to be propelled by a clean-burning fuel** if:
   a. The property is an engine (or modification of an engine) that can use a clean-burning fuel, or

b. **The property is used to store or deliver that fuel to the engine or to exhaust gases from the combustion of that fuel.**

For vehicles that may be propelled by both a clean-burning fuel and any other fuel, your deduction is generally the additional cost of permitting the use of the clean-burning fuel.

Clean-fuel vehicle property does not include an electric vehicle that qualifies for the electric vehicle credit, discussed later.

Qualified property. Your property must meet the following requirements to qualify for the deduction.

1. It must be acquired for your own use and not for resale.
2. Its original use must begin with you.
3. Either—
    a. The motor vehicle of which it is a part must satisfy any federal or state emissions standards that apply to each fuel by which the vehicle is designed to be propelled, or
    b. It must satisfy any federal and state emissions certification, testing, and warranty requirements that apply.
4. It cannot be nonqualifying property, defined earlier.

Deduction limit. The maximum deduction you can claim for qualified clean-fuel vehicle property with respect to any motor vehicle is one of the following.

1. $50,000 for a truck or van with a gross vehicle weight rating over 26,000 pounds or for a bus with a seating capacity of at least 20 adults (excluding the driver).
2. $5,000 for a truck or van with a gross vehicle weight rating over 10,000 pounds but not more than 26,000 pounds.
3. $2,000 for a vehicle not included in (1) or (2).

Deduction for Clean-Fuel Vehicle Refueling Property

Your property must meet the following requirements to qualify for this deduction.

1. It must be depreciable property.
2. Its original use must begin with you.
3. It cannot be nonqualifying property, defined earlier.

Clean-fuel vehicle refueling property. Clean-fuel vehicle refueling property is any property (other than a building or its structural components) used to do either of the following.

1. Store or dispense a clean-burning fuel (defined earlier) into the fuel tank of a motor vehicle propelled by the fuel, but only if the storage or dispensing is at the point where the fuel is delivered into the tank.
2. Recharge motor vehicles propelled by electricity, but only if the property is located at the point where the vehicles are recharged.

Recharging property. This property includes any equipment used to provide electricity to the battery of a motor vehicle propelled by electricity. It includes low-voltage recharging equipment, high-voltage (quick) charging equipment, and ancillary connection equipment such as inductive charging equipment. It does not include property used to generate electricity, such as solar panels or windmills, and does not include the battery used in the vehicle.

Deduction limit. The maximum deduction you can claim for clean-fuel vehicle refueling property placed in service at one location is $100,000. To figure your maximum deduction for any tax year, subtract from $100,000 the total you (or any related person or predecessor) claimed for clean-fuel vehicle refueling property placed in service at that location for all earlier years.

If the deduction limit applies, you must specify on your tax return the property (and the portion of the property's cost) you are using as a basis for the deduction.

Related persons. For this purpose, the following are considered related persons.

1. An individual and his or her brothers and sisters, half-brothers, half-

sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).

2. An individual and a corporation if the individual owns, directly or indirectly, more than 50% in value of the outstanding stock of the corporation.
3. Two corporations that are members of the same controlled group as defined in section 267(f) of the Internal Revenue Code.
4. A grantor and a fiduciary of any trust.
5. Fiduciaries of two separate trusts if the same person is a grantor of both trusts.
6. A fiduciary and a beneficiary of the same trust.
7. A fiduciary and a beneficiary of two separate trusts if the same person is a grantor of both trusts.
8. A fiduciary of a trust and a corporation if the trust or a grantor of the trust owns, directly or indirectly, more than 50% in value of the outstanding stock of the corporation.
9. A person and a tax-exempt educational or charitable organization that is controlled directly or indirectly by that person or by members of the family of that person.
10. A corporation and a partnership if the same persons own more than 50% in value of the outstanding stock of the corporation and more than 50% of the capital or profits interest in the partnership.
11. Two S corporations or an S corporation and a regular corporation if the same persons own more than 50% in value of the outstanding stock of each corporation.
12. A partnership and a person if the person, directly or indirectly owns, more than 50% of the capital or profits interests in the partnership.
13. Two partnerships if the same persons own, directly or indirectly, more than 50% of the capital or profits interest in both partnerships.
14. An executor of an estate and a beneficiary of the estate unless the sale or exchange is in satisfaction of a pecuniary bequest.

To determine whether an individual directly or indirectly owns any of the outstanding stock of a corporation, see *Ownership of stock* under *Related Persons* in Publication 538.

How To Claim the Deductions

How you claim the deductions for clean-fuel vehicle property and clean-fuel vehicle refueling property depends on the use of the property and the kind of income tax return you file.

Deduction for nonbusiness clean-fuel vehicle property by individuals. Individuals can claim the deduction for clean-fuel vehicle property used for nonbusiness purposes by including the deduction in the total on line 36 of Form 1040. Also, enter the amount of your deduction and "Clean Fuel" on the dotted line next to line 36. If you use the vehicle partly for business, see the next two discussions.

Deduction for business clean-fuel vehicle property by employees. Employees who use clean-fuel vehicle property for business, or partly for business and partly for nonbusiness purposes, should include the entire deduction in the total on line 36 of Form 1040. Also, enter the amount of your deduction and "Clean Fuel" on the dotted line next to line 36.

Sole proprietors. Sole proprietors must claim deductions for clean-fuel vehicle property and clean-fuel vehicle refueling property used for business on the *Other expenses* line of either Schedule C (Form 1040) or Schedule F (Form 1040). If clean-fuel vehicle property is used partly for nonbusiness purposes, claim the nonbusiness part of the deduction as explained earlier under *Deduction for nonbusiness clean-fuel vehicle property by individuals.*

Partnerships. Partnerships claim the deductions for clean-fuel vehicle property and clean-fuel vehicle refueling property on line 20 of Form 1065.

S corporations. S corporations claim the deductions for clean-fuel vehicle property and clean-fuel vehicle refueling property on line 19 of Form 1120S.

C corporations. C corporations claim the deductions for clean-fuel vehicle property and clean-fuel vehicle refueling property on line 26 of Form 1120 (line 22 of Form 1120-A).

Recapture of the Deductions

If the property ceases to qualify, you may have to recapture the deduction. You recapture the deduction by including it, or part of it, in your income.

Clean-Fuel Vehicle Property

You must recapture the deduction for clean-fuel vehicle property if the property ceases to qualify within 3 years after the date you placed it in service. The property will cease to qualify if it is changed in any of the following ways.

1. It is modified so that it can no longer be propelled by a clean-burning fuel.
2. It ceases to be a qualified clean-fuel vehicle property (for example, by failing to meet emissions standards).
3. It becomes nonqualifying property, defined earlier.

Sales or other dispositions. If you sell or otherwise dispose of the vehicle within 3 years after the date you placed it in service and know or have reason to know that it will be changed in any of the ways described above, you are subject to the recapture rules. In other dispositions (including a disposition by reason of an accident or other casualty), the recapture rules do not apply.

If the vehicle was subject to depreciation, the deduction (minus any recapture) is considered depreciation when figuring the part of any gain from the disposition that is ordinary income. See Publication 544 for more information on dispositions of depreciable property.

Recapture amount. Figure your recapture amount by multiplying the deduction by the following percentage.

- 100% if the recapture date is within the first full year after the date the vehicle was placed in service.
- 66⅔% if the recapture date is within the second full year after the date the vehicle was placed in service.
- 33⅓% if the recapture date is within the third full year after the date the vehicle was placed in service.

Recapture date. The recapture date is generally the date of the event that causes the recapture. However, the recapture date for an event described in item (3), earlier, is the first day of the recapture year in which the event occurs.

How to report. How you report the recapture amount for clean-fuel vehicle property as income depends on how you claimed the deduction for that property.

Deducted by individuals as nonbusiness-use property. Include the amount on line 21 of Form 1040.

Deducted by employees as business-use property. Include the amount on line 21 of Form 1040.

Deducted by sole proprietors as business-use property. Include the amount on the *Other income* line of either Schedule C (Form 1040) or Schedule F (Form 1040).

Partnerships and corporations (including S corporations). Include the amount on the *Other income* line of the form you file.

Clean-Fuel Vehicle Refueling Property

You must recapture the deduction for clean-fuel vehicle refueling property if the property ceases to qualify at any time before the end of its depreciation recovery period. The property will cease to qualify if it is changed in any of the following ways.

1. It ceases to be a clean-fuel vehicle refueling property (for example, by being converted to store and dispense gasoline).
2. It is no longer used 50% or more in your trade or business.
3. It becomes nonqualifying property, defined earlier.

Sales or other dispositions. If you sell or otherwise dispose of the property before the end of its recovery period and know or have reason to know that it will be changed in any of the ways described above, you are subject to the recapture rules. In other dispositions (including a disposition by reason of an accident or other casualty), the recapture rules do not apply.

The deduction (minus any recapture amount) is considered depreciation when figuring the part of any gain from the disposition that is ordinary income. See Publication 544 for more information on dispositions of depreciable property.

Recapture amount. Figure your recapture amount by multiplying the deduction you claimed by the following fraction.

$$\frac{\text{Total recovery period for the property [-] Recovery years before the recapture year}}{\text{Total recovery period for the property}}$$

How to report. How you report the recapture amount for clean-fuel vehicle refueling property depends on how you claimed the deduction for that property.

Sole proprietors. Include the amount on the *Other income* line of either Schedule C (Form 1040) or Schedule F (Form 1040).

Partnerships and corporations (including S corporations). Include the amount on the *Other income* line of the form you file.

Basis Adjustments

You must reduce the basis of your clean-fuel vehicle property or clean-fuel vehicle refueling property by the deduction claimed. If, in a later year, you must recapture part or all of the deduction, increase the basis of the property by the amount recaptured. If the property is depreciable property, you can recover this additional basis over the property's remaining recovery period beginning with the tax year of recapture.

If you were using the percentage tables to figure your depreciation on the property, you will not be able to continue to do so. See Publication 946 for information on figuring your depreciation without the tables.

Electric Vehicle Credit

You can choose to claim a tax credit for a qualified electric vehicle you place in service during the year. You can make this choice regardless of whether the property is used in a trade or business.

Qualified Electric Vehicle

A vehicle is a qualified electric vehicle if it meets all of the following requirements.

1. It is a motor vehicle (defined earlier) powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current.
2. You were the first person to use it.
3. You acquired it for your own use and not for resale.
4. It has never been used as a nonelectric vehicle.
5. It is not nonqualifying property, defined earlier.

Hybrid gas-electric vehicles are not qualified electric vehicles. However, certain of these vehicles may qualify for clean-fuel vehicles.

Amount of the Credit

The credit is generally 10% of the cost of each qualified electric vehicle you place in service during the year. If your vehicle is a depreciable business asset, you must reduce the cost of the vehicle by any section 179 deduction before figuring the 10% credit. If you need information on the section 179 deduction, see Publication 946.

Credit limits. The credit is limited to $4,000 for each vehicle. The total credit is limited to the excess of your regular tax liability, reduced by certain credits, over your tentative minimum tax. To figure the credit limit, complete Form 8834 and attach it to your tax return.

How To Claim the Credit

You must complete and attach Form 8834 to your tax return to claim the electric vehicle credit. Enter your credit on your tax return as discussed next.

Individuals. Individuals claim the credit by entering the amount from line 20 of Form 8834 on line 55 of Form 1040. Check box “c” and specify Form 8834.

Partnerships. Partnerships enter the amount from line 20 of Form 8834 on line 15f of Schedule K (Form 1065). The partnership then allocates the credit to the partners in Box 15, code U, of Schedule K-1 (Form 1065). See the instructions for Form 1065.

S corporations. S corporations enter the amount from line 20 of Form 8834 on line 13g of Schedule K (Form 1120S). The S corporation then allocates the credit to the shareholders in Box 13, code U, of Schedule K-1 (Form 1120S). See the instructions for Form 1120S.

C corporations. C corporations claim the credit by entering the amount from line 20 of Form 8834 in the total for line 6c of Schedule J (Form 1120), checking the “Form 8834” box. See the instructions for Form 1120.

Recapture of the Credit

The electric vehicle credit is subject to recapture if, within 3 years after the date you place the vehicle in service, it ceases to qualify for the electric vehicle credit. You recapture the credit by adding it, or part of it, to your income tax for the year in which the recapture event occurs.

The vehicle will cease to qualify if it is changed in either of the following ways.

1. It is modified so that it is no longer primarily powered by electricity.

2. It becomes nonqualifying property, defined earlier.

Sales or other dispositions. If you sell or otherwise dispose of the vehicle within 3 years after the date you placed it in service and know or have reason to know that it will be changed in either of the ways described above, you are subject to the recapture rules. In other dispositions (including a disposition by reason of an accident or other casualty), the recapture rules do not apply.

If the vehicle was subject to depreciation, the credit (minus any recapture amount) is considered depreciation when figuring the part of any gain from the disposition that is ordinary income. See Publication 544 for more information on dispositions of depreciable property.

Recapture amount. Figure your recapture amount by multiplying the credit by the following percentage.

- 100% if the recapture date is within the first full year after the date the vehicle was placed in service.
- 66⅔% if the recapture date is within the second full year after the date the vehicle was placed in service.
- 33⅓% if the recapture date is within the third full year after the date the vehicle was placed in service.

Recapture date. The recapture date is generally the date of the event that causes the recapture. However, the recapture date for an event described in item (2), earlier, is the first day of the recapture year in which the event occurs.

How to report. Report the recapture amount as follows.

Individuals. Include the amount on line 63 of Form 1040. Write “QEVCR” on the dotted line next to line 63.

Partnerships. Include in Box 15, code V, Schedule K-1 (Form 1065) the information a partner needs to figure the recapture of the credit.

S corporations. Include in Box 13, code V, of Schedule K-1 (Form 1120S) the information a shareholder needs to figure the recapture of the credit.

C corporations. Include the amount on line 10 of Schedule J (Form 1120), or line 4 of Part I (Form 1120-A). Check the box for “Other” and attach the required schedule. See the instructions for Form 1120.

Basis Adjustments

If you claim a tax credit for a qualified electric vehicle you place in service during the year, you must reduce your basis in that vehicle by the lesser of:

1. $4,000, or
2. 10% of the cost of the vehicle.

This basis reduction rule applies even if the credit allowed is less than that amount.

If you must recapture part or all of the credit, increase the basis of your vehicle by the amount recaptured. If the qualified electric vehicle is depreciable property, you can recover the additional basis over the vehicle's remaining recovery period beginning with the tax year of recapture.

CAUTION

If you were using the percentage tables to figure your depreciation on the vehicle, you will not be able to continue to do so. See Publication 946 for information on figuring your depreciation without the tables.