

The power of the tax credit for buying an electric vehicle

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Although electric vehicles ("EVs") are a small percentage of the cars on the road today, they're increasing in popularity all the time. If you buy one, you may be eligible for a federal tax break.

The Internal Revenue Code provides a credit to purchasers of qualifying plug-in electric drive motor vehicles including passenger vehicles and light trucks. The credit is equal to \$2,500 plus an additional amount, based on battery capacity, that can't exceed \$5,000. Accordingly, the maximum credit allowed for a qualifying EV is \$7,500.

The EV definition

For purposes of the tax credit, a qualifying vehicle is defined as one with four wheels that's propelled to a significant extent by an electric motor, which draws electricity from a battery. The battery must have a capacity of not less than four kilowatt hours and be capable of being recharged from an external source of electricity.

The credit may not be available because of a per-manufacturer cumulative sales limitation. Specifically, it phases out over six quarters beginning when a manufacturer has sold at least 200,000 qualifying vehicles for use in the United States (determined on a cumulative basis for sales after December 31, 2009). For example, Tesla and General Motors vehicles are no longer eligible for the tax credit.

The IRS provides a list of qualifying vehicles on its website and it recently added a number of models that are eligible. You can access the list here: <https://bit.ly/2Yrhg5Z>.

Here are some additional points about the plug-in electric vehicle tax credit:

- It's allowed in the year you place the vehicle in service.
- The vehicle must be new.
- An eligible vehicle must be used predominantly in the U.S. and have a gross weight of less than 14,000 pounds.

Electric motorcycles

There's a separate 10% federal income tax credit for the purchase of qualifying electric two-wheeled vehicles manufactured primarily for use on public thoroughfares and capable of at least 45 miles per hour (in other words, electric-powered motorcycles). It can be worth up to \$2,500. This electric motorcycle credit was recently extended to cover qualifying 2021 purchases.

These are only the basic rules. There may be additional incentives provided by your state. Please contact us if you'd like to receive more information about the federal plug-in electric vehicle tax break.

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