

**Fact Sheet:
Federal Incentive for Natural Gas
Vehicles**

Overview

The Energy Policy Act (EPAc) of 2005 (EPAc 2005, §1341, Pub. L. No. 109-58) provides an income tax credit for businesses and individuals that acquire alternative fuel motor vehicles, including natural gas vehicles (NGVs). The potential value of the tax credit varies depending on the size of the vehicle, the incremental cost of the vehicle, and the emissions performance of the vehicle. In order to qualify for the incentive, a person or business must be a taxpayer, be the original or first user of the vehicle, and the vehicle must be a dedicated NGV. Conversions also qualify as long as the vehicle was not previously an NGV and the other requirements discussed below are met. The vehicle also must be one that has been primarily manufactured for use on “public streets, roads, and highways.” If the vehicle is leased, the incentive goes to the lessor (i.e., leasing company) and not the lessee. If the NGV is sold to a tax-exempt entity, the company selling the vehicle can claim the tax credit but only if the customer is provided written notification of the credit’s value. The seller may -- but is not required to -- pass along any savings associated with the tax credit.

Mix-Fuel Vehicles

In addition to providing incentives for dedicated NGVs, EPAc 2005 also provides tax credits for certain mix-fuel or dual-fuel vehicles having a gross vehicle weight rating (GVWR) of more than 14,000 pounds. In order to qualify for the credit, the vehicle must be capable of operating on a “combination of an alternative fuel and a petroleum-based fuel.” These mix-fuel or dual-fuel vehicles qualify for the tax credits described below albeit on a slightly reduced basis. EPAc 2005 recognizes two types of mixed-fuel vehicles – ones that operate on at least 90 percent alternative fuel and not more than 10 percent petroleum-based fuel (based on BTU content), and ones that operate on at least 75 percent alternative fuel and not more than 25 percent petroleum-based fuel (based on BTU content). If the vehicles are capable of operating on petroleum fuel at levels higher than that specified above, there must be some efficiency or performance penalty. For mix-fuel vehicles, the tax credits are 90 percent and 70 percent, respectively, of the values otherwise available to dedicated NGVs.

Tax Credit Values

In general, the tax credit values range from a low of \$2,500 to a high of \$32,000 depending on various factors. The tax code provides a minimum credit equal to 50 percent of the incremental cost for any new, dedicated NGV that meets federal EPA or CARB emissions standards. In addition, there is a maximum credit equal to 80 percent of the incremental cost for NGVs that have been certified as meeting the most stringent emission standard (other than zero emissions) available for that particular type vehicle. This has generally been viewed as requiring certification to EPA's Tier 2, Bin 2 standard for light duty vehicles. For heavy-duty engines, the IRS has not released any specific guidance on what is required and appears to be making determinations on a case-by-case basis. In all cases, purchasers should ask the seller or manufacturer for information on the tax credit value of their NGVs. The two tables below illustrate the relationship among size of the vehicle, the incremental cost of the vehicle, and the emissions performance of the vehicle.

NGV Credits

Vehicle Size	Incremental Cost Cap	50% Credit	80% Credit
8,500 GVWR or less	\$5,000	\$2,500	\$4,000
8,501 - 14,000 GVWR	\$10,000	\$5,000	\$8,000
14,001 – 26,000 GVWR	\$25,000	\$12,500	\$20,000
26,001 GVWR and heavier	\$40,000	\$20,000	\$32,000

So, for example, a 6,000 pound GVWR passenger car that does not meet the most stringent emission standard available would qualify for a credit of \$2,500 (50 percent of \$5,000). This assumes that the incremental cost is equal to or greater than \$5,000. A 30,000 pound GVWR truck that meets the most stringent emission standard available would qualify for a credit of \$32,000 (80 percent of \$40,000). Again, this assumes the incremental cost of the vehicle is equal to or greater than \$40,000.

Limitations

The tax credit is subject to the alternative minimum tax provisions and anyone taking the tax credit for property placed in service must reduce their basis in the cost of the equipment. In addition, there is no carry over credit for *individuals*, so that if AMT precludes an individual from realizing the full benefit of a tax credit in a particular year, they may not carry a portion of the credit forward or backward. Please note that as of January 1, 2009 the tax credit for individuals can be taken against the alternative minimum tax. This change was made as part of the American Recovery and

Reinvestment Act of 2009 (Pub. L. No. 111-5, § 1144 (Feb. 17, 2009)). Businesses, however, are permitted to carry forward and backward unused portions of the credit.

IRS Regulations/Guidance/Forms

The Internal Revenue Service (IRS) has issued guidance with respect to the AFV tax credits. This guidance was released in Notice 2006-54, “Credit for New Qualified Alternative Motor Vehicles.” A link to this document is provided below. This guidance clarifies a number of points concerning the tax credits and provides a voluntary procedure whereby manufacturers may certify the tax credit values of vehicles they sell. This procedure is intended to provide manufacturers and customers with greater certainty regarding the value of tax credits and the ability to take tax credits for certain vehicles. This guidance also clarifies that vehicle conversions qualify for the tax credits as long as the vehicle was not previously an alternative fueled vehicle, the vehicle is a dedicated AFV, and the vehicle has been certified to U.S. Environmental Protection Agency or California Air Resources Board (CARB) emission standards.

A number of manufacturers have received certification from the IRS as to the value of the tax credits for their vehicle offerings. The links below provide information on these values. The IRS also has released the tax form (Form 8910) that taxpayers will use to claim the incentive.

Links to IRS and Other Resources

IRS Interim AFV Guidance - <http://www.irs.gov/pub/irs-drop/n-06-54.pdf>

IRS Tax Form for AFVs -

<http://www.irs.gov/formspubs/lists/0,,id=97817,00.html> (scroll down to Form 8910 for the latest version)

IRS Website – Information on AFV & Hybrid Credits

<http://www.irs.gov/businesses/article/0,,id=175456,00.html> – all AFV values

<http://www.irs.gov/newsroom/article/0,,id=157632,00.html> – general info

<http://www.irs.gov/newsroom/article/0,,id=161076,00.html> – light duty mfr letters

Last Updated: March 2009