NGVAMERICA
Natural Gas Vehicles for America

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FACT SHEET:
Alternative Fuel Vehicles: Providing Partial Relief from Federal Excise Tax

PURPOSE

To amend section 4051 of the Internal Revenue Code (IRC) of 1986 to provide alternative fuel vehicles with a partial exclusion from the excise tax imposed on heavy trucks sold at retail.

CURRENT LAW

The tax code currently imposes a 12 percent Federal Excise Tax (FET) on the sale of heavy-duty trucks, trailers and tractors. This tax is the highest federal excise tax on a percentage basis on any product. The revenues raised are deposited in the Highway Trust Fund.

Subject to the FET are:

- **Trucks** with a gross vehicle weight rating (GVWR) over 33,000 lbs. (although the body or chassis is not taxable if it is suitable for use on a truck of 33,000 lbs. or less).
- **Tractors** (as in tractor/trailer) unless they have a GVW of 19,500 lbs. or less ***and*** have a gross combined weight, in combination with a trailer or semitrailer, of 33,000 lbs. or less.
- **Trailers** with a gross vehicle weight rating (GVWR) over 26,000 lbs. (although the trailer or semi-trailer body or chassis is not taxable if suitable for use with a trailer or semitrailer 26,000 lbs. GVWR or less).

NEED FOR CHANGE

The FET is an onerous tax burden to customers who want to buy new, cleaner, and safer, more fuel efficient trucks, and because it raises the capital cost of purchasing trucks and therefor discourages new investment and new sales. The current tax treatment amplifies an inequity imposed on alternative fuel (NGV) trucks because these trucks include new technology and are sold in limited quantities, and, therefore have a much higher first cost or incremental cost than conventional trucks. For example, the tax code currently exempts auxiliary power units that are intended to reduce petroleum consumption and pollution but not the new technology of alternative fueled trucks. Thus the tax acts as a penalty for alternative fuel trucks because the 12% rate is assessed on the base cost of the truck and on the incremental cost, unnecessarily adding to the already higher cost of these vehicles. The higher tax increases natural gas truck prices and extends the required payback period for these trucks and makes it harder for businesses to choose to purchase a natural gas truck. Some states recognize this inequity and exempt portions of the vehicle cost from their sales taxes (SC: 30%; NM: 18%).

EXAMPLE OF HIGHER TAX ON NATURAL GAS TRUCK

Fuel Type	Truck Price	Incremental Cost	12% FET per IRC § 4051	Total Price	Additional Tax
Diesel	$125,000	$0	$15,000	$140,000	
Natural gas	$185,000	$60,000	$22,200	$207,200	$7,200

PROPOSAL

Amend IRC 4051 to provide a 35% exclusion for heavy duty alternative fuel powered trucks. The change should be permanent.

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