

Electric Vehicle Tax Credit

Thinking of buying an electric vehicle in 2023? Take note of the changes to the EV tax credit that are included in the Inflation Reduction Act, which was signed by President Biden in Aug.

Most changes apply for the 2023 and later. The revamp credit is slated to go through 2032.

The maximum tax break remains \$7,500. However, the factors for figuring the credit are new.



To be eligible for the full \$7,500 credit, EVs put in use after 2022 must meet a critical minerals requirement and a battery component rule. If only one factor is met, then the credit is capped at \$3,750. Under the critical mineral rule, a percentage of the battery's minerals must be extracted or processed in the U.S. or in a country with a free-trade pact with the U.S. The battery component rule requires a percentage of the battery's components to be manufactured or assembled in North America.

The vehicle's battery must have a capacity of at least seven kilowatt-hours. And final assembly of the vehicle must take place in North America. This rule applies for EVs placed in service after Aug. 16, 2022. The Dept. of Energy has a list of EVs that meet this requirement on its website. And there's an online tool where you can input a vehicle identification number to see if the EV is credit-eligible.

The manufacturer sales threshold limit is going away. Under pre-2023 rules, some popular car brands don't qualify for the credit because it starts to phase out for vehicles manufactured by a car company that has sold over 200,000 EVs in the U.S. These include Teslas and vehicle models from General Motors and Toyota. This limitation has been removed for electric vehicles purchased in 2023 and later.

But two new rules could prevent taxpayers from claiming the tax break:

Some high-cost EVs don't qualify. The manufacturer's suggested retail price can't exceed \$55,000 for sedans and \$80,000 for vans, SUVs and pickup trucks.

There's an income limit. Modified adjusted gross income can't exceed \$300,000 for joint return filers, \$225,000 for heads of household and \$150,000 for single filers.

Used EVs qualify for a smaller credit, equal to the lesser of \$4,000 or 30% of sales price, provided the EV is at least two years old and purchased from a dealer. There is also an income limitation. The buyer's modified AGI can't exceed \$150,000 for joint filers, \$112,500 for heads of household and \$75,000 for single filers.

One big change begins in 2024: The option for the buyer to monetize the credit by transferring it to the dealer at the time of purchase, thus lowering the amount that the buyer pays for the car. This allows buyers to take immediate advantage of the tax credit instead of waiting for the next year when they file their tax returns.