

Abstract: Electric vehicles (EVs) are increasing in popularity all the time, and more of them are qualifying for a federal tax credit. For example, the IRS added three more eligible models in July. This article discusses the definition of EVs for tax purposes as well as other important points about the credit.

Energize tax savings with an EV credit

Electric vehicles (EVs) are increasing in popularity all the time — and more of them are qualifying for a federal tax credit. In fact, the IRS added several more eligible models over the summer.

The tax code provides a credit to buyers 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. Therefore, the maximum credit allowed for a qualifying EV is \$7,500.

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, as mentioned, recently added more eligible models. You can access the list here: <https://bit.ly/2Yrhg5Z>.

Additional points

There are some additional points about the plug-in electric vehicle tax credit to keep in mind. It's allowed only in the year you place the vehicle in service, and the vehicle must be new. Also, an eligible vehicle must be used predominantly in the United States and have a gross weight of less than 14,000 pounds.

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.

Basic rules

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

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