

Tax treatment of buying a hybrid automobile

Many have asked if there are any tax advantages to buying a hybrid passenger automobile (a passenger automobile that is propelled by both a gasoline engine and an electric motor that is recharged as the motor vehicle operates).

A purchaser of a hybrid passenger automobile (referred to below as a "hybrid") is allowed a tax credit of from \$400 to \$3,400 depending on the model. A credit is usually more advantageous than a deduction because a tax credit is subtracted dollar-for-dollar off the bottom line of your federal tax bill, while a deduction simply reduces taxable income.

The amount of the hybrid credit depends on the fuel efficiency of the vehicle. The more gas it saves, the higher the credit. However, calculating the credit is a bit complicated, with the exact amount of your credit depending on three separate factors: the weight of the vehicle, its fuel economy, and its lifetime fuel savings. IRS has certified various hybrid models made by Ford, General Motors, Toyota, Honda, and Nissan as qualifying for the credit. In each case, the certification specifies the amount of the credit for the particular model.

In addition, the law limits the credits to 60,000 hybrid vehicles from each automaker. Once a manufacturer has sold 60,000 hybrid vehicles, the tax credit for that manufacturer's hybrids is slowly reduced over the next five consecutive quarters, eventually dropping to zero. Toyota hybrid sales reached the 60,000-vehicle limit during the calendar quarter ended June 30, 2006. As a result, the credit for Toyota hybrid vehicles (including Lexus) is being phased out. For Toyota vehicles purchased after Mar. 31, 2007 and before Oct. 1, 2007, the credit is only 25% of the otherwise allowable amount. Hybrid vehicles built by the other hybrid manufacturers haven't yet reached the 60,000-vehicle limit, and thus continue to qualify for the maximum credit allowable.

Here are some additional points about the credit:

- In general, the credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease. Thus, if you lease a hybrid (rather than purchase it), you won't qualify for the credit.
- The credit is allowed in the year the vehicle is placed in service.
- The vehicle must be used predominantly in the U.S. to qualify for the credit.
- The original use of the hybrid auto must begin with you, i.e., the vehicle must be new.
- The credit isn't allowed if you buy the hybrid auto for resale.
- No credit is allowed for the portion of the cost of any property taken into account under Code Sec. 179, the expensing election provision.
- The portion of the credit attributable to vehicles of a character subject to an allowance for depreciation is treated as a portion of the general business credit; the remainder of the credit is allowable to the extent of the excess of the regular tax (reduced by certain other credits) over the alternative minimum tax (AMT) for the tax year. Thus, the credit is not allowed against AMT and may be reduced even if the taxpayer is not subject to AMT.