

Tax Letter

November 2005, Vol 2 - 4 New Vehicle Tax Credits

Dear clients and friends:

As described in our October 2005 Tax Letter, President Bush signed two Bills into law on August 8 and 10, 2005. In addition to the Home, Residence, and Contractors new tax credits, the 2005 Transportation Act (H.R. 3) and the 2005 Energy Act (H.R. 6), also provided certain tax credits for new vehicles purchased in 2006 and after.

NEW VEHICLE TAX CREDITS

The 2005 Energy Act also provided four new types of tax credits for new vehicles. They are:

(a) New qualified fuel cell motor vehicle credit:

A qualifying fuel cell vehicle is a motor vehicle that is propelled by power derived from one or more cells which convert chemical energy directly into electricity. The device is installed on board the vehicle. The amount of credit for the purchase of a fuel cell vehicle is determined by a base credit amount depends upon the weight class of the vehicle. The tax credit for an automobile or a light truck will be \$1,000, if the fuel economy is at least 150% of the base 2002 model year Federal city fuel economy rating. For vehicle with a gross weight more than 8,500 pounds, the credit will be \$10,000 per qualified vehicle.

(b) New qualified hybrid motor vehicle credit:

A new qualified hybrid motor vehicle is a motor vehicle that draws propulsion energy from onboard sources of stored energy which include both an internal combustion engine using combustible fuel and rechargeable energy storage, such as batteries. To qualify all hybrid vehicles must have an available power from rechargeable energy storage and meet or exceed EPA emissions standards for that class of vehicles. For an automobile or light truck, the available rechargeable energy storage must be at least 5%; for vehicle weighted between 8,500 pounds and 14,000 pounds must be at least 10%; and for vehicle weighted more than 14,000 pounds must be at least 15%.

The amount of tax credits allowed for the purchase of a new hybrid vehicle will be determined by the fuel economy rating for that particular make, model vehicle as compared to the fuel economy standards for a comparable 2002 model. Accordingly, related guidelines will be issued either by the U.S. Treasury or by the IRS.

(c) New advance lean-burn technology motor vehicle credit:

A qualifying advanced lean-burn technology motor vehicle is a passenger automobile or a light truck with an internal combustion engine that (1) is designed to operate primarily using more air than is necessary for complete combustion of fuel, (2) achieves at least 125% of the 2002 model year city fuel economy rating, (3) must be made by a vehicle manufacturer, and (4) the original use of the vehicle must begin with the purchasing taxpayer.

The Amount of tax credits allowed for the purchase of a new advanced lean burn technology motor vehicle is the sum of two credits: (1) a fuel economy credit which may vary with the rated fuel economy of the vehicle as compared to a comparable 2002 model year vehicle, and (2) a conservation credit based on the estimated lifetime fuel savings of a lean burn technology vehicle as compared to a comparable 2002 model year vehicle. Again, either the US Treasury or the IRS will issue related guidelines.

(d) New qualified alternative fuel motor vehicle credit:

A new qualified alternative fuel motor vehicle is a motor vehicle that is made by a vehicle manufacturer and can only operate on alternative fuel. This means that it can not use "gasoline" as fuel. The alternative fuels could be compressed or liquefied natural gas, hydrogen, and any liquid fuel that is at least 85% methanol.

The credit for purchase of such an alternative fuel vehicle is 50% of the vehicle's incremental purchase cost, plus an additional 30% for meeting certain EPA emissions standards. The maximum tax credit allowed per vehicle will be ranged from \$4,000 to \$32,000 depending upon the gross weight of the vehicle. The tax credit can only be claimed by the purchaser taxpayer if and only if the original use commences with the taxpayer. Further, it could not be purchased for resale purposes.

If you need any further information please give us a call at **415-381-0681**, or visit our web site at **www.chochan.com**.

Sincerely,

Cho F. Chan, CPA, Inc.