

# Client Letter: Changes in the Section 30D Electric Vehicle Credit

Dear Client,

The recently passed Inflation Reduction Act of 2022 includes changes to the credit available for electric vehicles. The changes are complex, and phase in over time. If you are in the market for an electric vehicle, we should review the new rules to help you maximize the credit you are allowed.

*North American assembly requirement.* One of the new rules is in effect right now. To qualify for the electric vehicle credit, final assembly of the vehicle must take place in North America. You can check whether a particular vehicle meets this requirement by entering its vehicle identification number (VIN) into the **VIN decoder**. There is also a **list** of makes and models that generally should meet the requirement, but you should double-check for any particular vehicle by using the VIN decoder.

*Manufacturer limitation.* The good news is that, effective as of January 1, 2023, the manufacturer limitation is going away. Under the manufacturer limitation, once a manufacturer had sold 200,000 electric vehicles, a taxpayer's ability to take a tax credit for vehicles produced by that manufacturer began to phase out. Taxpayers are currently prevented from taking the electric vehicle credit for automobiles manufactured by General Motors and Tesla. Starting at the beginning of 2023, taxpayers will be able to take the credit for GM and Tesla vehicles once again, but see the manufacturer's suggested retail price (MSRP) limits below.

*Calculation of the credit.* The way the credit is calculated is changing later this year. We do not know when the rules are changing yet, but it will be as soon as the IRS issues regulations implementing the new rules. Under the previous rules, the base amount of the electric vehicle credit is \$2,500 per vehicle. The allowable credit increases to \$7,500 per vehicle based on a formula which increases the credit by \$417 for every kilowatt hour of battery capacity in excess of five.

Under the new rules, the amount of the credit will be based on two separate requirements, each one based on where the vehicle's battery is sourced:

- Taxpayers get a \$3,750 credit for meeting the critical minerals requirement (which requires that a minimum percentage of the minerals contained in the battery be sourced in the United States or a country with which the United States has a free trade agreement in effect).
- Taxpayers also can get a \$3,750 credit for satisfying the battery component requirement (which requires that a minimum percentage of the value of the components of the battery be manufactured or assembled in North America).

Taxpayers can satisfy either or both requirements, for either a \$3,750 credit (if only one requirement is satisfied) or a \$7,500 credit (if both requirements are satisfied).

The new rules are designed to encourage electric vehicle manufacturers to move their battery supply chains from China to North America or countries with which the United States has better relations than China.

*New qualified fuel cell motor vehicle.* Effective January 1, 2023, the credit will also be available for new qualified fuel cell motor vehicles. New qualified fuel cell motor vehicles are vehicles propelled by power derived from one or more cells that convert chemical energy directly into electricity by combining oxygen with hydrogen fuel, and that meets certain additional requirements. New qualified fuel cell motor vehicles have to meet the North American final assembly requirement. They can qualify for either a \$3,750 or \$7,500 credit based on whether they satisfy one or both of the critical minerals requirement and battery components requirements.

*Modified adjusted gross income limitation.* Starting on January 1, 2023, your ability to take the electric vehicle credit will be limited based on your modified adjusted gross income (MAGI). MAGI is adjusted gross income (AGI) with adjustments for income received from U.S. territories. For most taxpayers, MAGI will be equal to AGI. You may not take the credit if your MAGI exceeds the threshold amount. The threshold amount is:

- For married taxpayers filing a joint return or a surviving spouse, \$300,000.
- For taxpayers filing as head of household, \$225,000.
- For all other taxpayers (single, married filing separately), \$150,000.

These amounts are not adjusted for inflation. If your MAGI exceeds this amount, you should buy the electric car before the first of the year.

*MSRP limitation.* Also starting on January 1, 2023, vehicles will not be eligible for the credit if they exceed an MSRP limit: \$80,000 for vans, pickup trucks, and sport utility vehicles; \$55,000 for other vehicles. This means that if you are looking at a higher-end electric vehicle, you need to act by the end of December.

Unfortunately, the manufacturer limitation (see above) will not go away until January 1, so you will not be able to claim the credit for higher-end GM and Tesla vehicles that exceed the MSRP limits.

*Transition rule.* Finally, if you had a binding contract to purchase an electric vehicle as of August 15, 2022, or earlier, you can choose to apply the old rules. I can help you do this,