FACT SHEET
Accelerating the Development and Deployment of Advanced Technology Vehicles, including
Battery Electric and Fuel Cell Electric Vehicles

President Obama’s proposed changes to advanced vehicle tax credits as part of the Administration’s Fiscal Year 2016 Revenue Proposals:1

Provide a Tax Credit for the Production of Advanced Technology Vehicles

Current Law

A tax credit is allowed for plug-in electric drive motor vehicles. A plug-in electric drive motor vehicle is a vehicle that has at least four wheels, is manufactured for use on public roads, is treated as a motor vehicle for purposes of Title II of the Clean Air Act (that is, is not a low-speed vehicle), has a gross vehicle weight of less than 14,000 pounds, meets certain emissions standards, draws propulsion energy using a traction battery with at least four kilowatt hours of capacity, is capable of being recharged from an external source, and meets certain other requirements. The credit is $2,500 plus $417 for each kilowatt hour of battery capacity in excess of four kilowatt hours, up to a maximum credit of $7,500. The credit phases out for a manufacturer’s vehicles over four calendar quarters beginning with the second calendar quarter following the quarter in which 200,000 of the manufacturer’s credit-eligible vehicles have been sold. The credit is generally allowed to the taxpayer that places the vehicle in service (including a person placing the vehicle in service as a lessor). In the case of a vehicle used by a tax-exempt or governmental entity, however, the credit is allowed to the person selling the vehicle to the tax exempt or governmental entity, but only if the seller clearly discloses the amount of the credit to the purchaser.

Reasons for Change

The President is proposing increased investment in research and development and a competitive program to encourage communities to invest in the advanced vehicle infrastructure, address the regulatory barriers, and provide the local incentives to achieve deployment at critical mass. The President is also proposing a transformation of the existing tax credit for plug-in electric drive motor vehicles into one that is allowed for a wider range of advanced technologies and that is allowed generally to the seller.

Making the credit available to a wider range of technologies, removing the cap placed on the number of vehicles per manufacturer that can receive the credit, and allowing for a scalable credit up to a maximum of $10,000 will help increase production of advanced vehicles that diversify our fuel use and bring down the cost of producing such vehicles.

Making the credit transferable will add flexibility to the market. This flexibility would enable the seller or person financing the sale to offer a point-of-sale rebate to consumers.

Proposal

The proposal would replace the credit for plug-in electric drive motor vehicles with a credit for advanced technology vehicles. The credit would be available for a vehicle that meets the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of January 1, 2014, there are few vehicles in operation in the U.S. using the same technology as such vehicle; and (3) the technology used by the

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1 The following summary of President Obama’s proposed changes to advanced vehicle tax credits is from the U.S. Department of the Treasury’s “General Explanations of the Administration’s fiscal Year 2016 Revenue Proposals,” at 182-84 (Feb. 2015) (Available at: http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2016.pdf).
vehicle exceeds the footprint based target miles per gallon by at least 25 percent. The Secretary of the Treasury, in consultation with the Secretary of Energy, will determine what constitutes the “same technology” for this purpose. The credit would be limited to vehicles that weigh no more than 14,000 pounds and are treated as motor vehicles for purposes of Title II of the Clean Air Act. In general, the credit would be the sum of $5,000 and the product of 100 and the amount by which the vehicle’s miles per gallon equivalent exceeds its footprint-based target miles per gallon, but would be capped at $10,000 ($7,500 for vehicles with an MSRP above $45,000). The credit for a battery-powered vehicle would be determined under current law rules for the credit for plug-in electric drive motor vehicles if that computation results in a greater credit. The credit would be available to the manufacturer of the vehicle, but the manufacturer would have the option to transfer the credit to a dealer that sells the vehicle or to the end-use purchaser of the vehicle. If the credit is transferred to an end-use business purchaser, the purchaser would not be required to reduce the basis of depreciable property by the amount of the credit.

The credit would be allowed for vehicles placed in service after December 31, 2015 and before January 1, 2023. The credit would be 75 percent of the otherwise allowable amount for vehicles placed in service in 2020, 50 percent of such amount for vehicles placed in service in 2021, and 25 percent of such amount for vehicles placed in service in 2022.

Provide a Tax Credit for Medium- and Heavy-Duty Alternative-Fuel Commercial Vehicles

Current Law

A tax credit is allowed for fuel-cell vehicles purchased before 2015. The credit is $20,000 for vehicles weighing more than 14,000 pounds but not more than 26,000 pounds and $40,000 for vehicles weighing more than 26,000 pounds. There is no tax incentive for other types of alternative-fuel vehicles (vehicles operating on compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, or any liquid at least 85 percent of the volume of which consists of methanol) weighing more than 14,000 pounds.

Reasons for Change

Alternative-fuel vehicles have the potential to reduce petroleum consumption. A tax credit would encourage the purchase of such vehicles and the development of a commercially viable manufacturing base for alternative-fuel medium and heavy-duty vehicles. Making the credit transferable would add flexibility to the market. This flexibility would enable the seller or person financing the sale of these vehicles to offer a point-of-sale rebate to purchasers.

Proposal

The proposal would allow a tax credit of $25,000 for dedicated alternative-fuel vehicles weighing between 14,000 pounds and 26,000 pounds and $40,000 for dedicated alternative-fuel vehicles weighing more than 26,000 pounds.

The credit would be available to the manufacturer of the vehicle, but the manufacturer would have the option to transfer the credit to a dealer that sells the vehicle or to the vehicle’s end-use purchaser. If the credit is transferred to an end-use business purchaser, the purchaser would not be required to reduce the basis of depreciable property by the amount of the credit.

The credit would be allowed for vehicles placed in service after December 31, 2015, and before January 1, 2022. For vehicles placed in service in calendar year 2021, the credit would be limited to 50 percent of the otherwise allowable amount.