



INNOVATIVE MOTOR VEHICLE INCOME TAX CREDIT

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The state innovative motor vehicle income tax credit is intended to reduce the cost of alternative fuel vehicles and incentivize their purchase. This issue brief describes the tax credit, most recently addressed in House Bill 13-1247, and provides information on how its value is calculated.

This tax credit is available to all taxpayers who:

- purchase or lease alternative fuel vehicles;
- convert conventional vehicles to use an alternative fuel; or
- install devices to reduce idling by providing heat, air conditioning, or electricity to a stationary vehicle without requiring operation of the vehicle's engine.

Types of vehicles that qualify for the credit include: electric vehicles; plug-in hybrid vehicles; diesel-electric hybrid vehicles; and vehicles that use compressed natural gas or liquefied petroleum gas. Conversions that replace traditional engines in vehicles with any of these alternative fuel motors qualify for a credit to offset a portion of the cost of the conversion.

The value of the tax credit varies depending on the type of alternative fuel used and whether the eligible vehicle is purchased or converted. These categories, and the method for calculating the value of each associated credit, are listed in Table 1 on page 2.

The amount of the tax credit is equal to a percentage of the purchase price of a new vehicle or a percentage of the cost of the conversion. The percentages used to calculate the amount of

the credit depend on the type of vehicle, the fuel technology used, and the year of purchase or conversion. These percentages are shown in Table 1 and range from 12.25 percent to 75 percent in tax year 2014.

The credit is available until 2021, but begins to step down in value beginning in 2019. The tax credit is capped at \$6,000 for a new vehicle and \$7,500 for a conversion. The value of the credit is fully refundable in the year it is claimed and may not be carried forward to offset taxes in subsequent years.

Calculating the Credit Amount

The following examples illustrate the calculation of credits for vehicles in categories 1, 1A, and 4, the most common types of credit claimed.

Category 1 vehicles include electric vehicles and plug-in hybrid electric vehicles. The percentage used is based on the vehicle's battery capacity (in kilowatt-hours) multiplied by the manufacturer's suggested retail price (MSRP) divided by 100. This credit is capped at \$6,000. Figure 1 illustrates how the credit is calculated for a Chevrolet Volt.

Figure 1

$$\begin{aligned} &2014 \text{ Chevrolet Volt MSRP} = \$34,185 \\ &\quad \downarrow \\ &\text{battery capacity in kWh} = 16.5 \\ &\quad \downarrow \\ &\$34,185 \times 16.5/100 = \mathbf{\$5,641} \end{aligned}$$

Category 1A is available to taxpayers who convert a vehicle to use an electric motor or a plug-in hybrid electric motor. The value of this credit is calculated based on a percentage of the cost of conversion and is capped at \$6,000 beginning in tax year 2014. Figure 2 illustrates how the credit is calculated for a Toyota Prius Liftback.

Figure 2

Conversion cost for 2012 Prius Liftback = \$9,750
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 Percentage used for the credit = 75%
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 $\$9,750 \times 75\% = \$7,313$
 (credit capped at **\$6,000**)

Category 4 includes passenger vehicles and medium duty trucks originally manufactured to use compressed natural gas or liquefied petroleum natural gas. The value of the credit is a percentage of the MSRP of the vehicle and is capped at \$6,000. Figure 3 illustrates how the credit is calculated for a Honda Civic GX.

Figure 3

2013 Honda Civic GX MSRP = \$26,465
 ↓
 Percentage used for the credit = 12.25%
 ↓
 $\$26,465 \times 12.25\% = \mathbf{\$3,242}$

Table 1
Categories of Innovative Motor Vehicles and Fuel-Efficient Technologies
Eligible for State Income Tax Credits

Category	Category Description	Credit Calculation Method
1	Electric and plug-in hybrid electric motor vehicles. <i>Examples: Nissan Leaf (electric vehicle); Chevrolet Volt (plug-in hybrid vehicle)</i>	24% of MSRP for a 24 kWh-capacity battery (e.g. Nissan Leaf); 16.5% of MSRP for a 16.5 kWh-capacity battery (e.g. Chevrolet Volt); percentages fall beginning in 2019.
1A	Conversion of a motor vehicle to an electric motor vehicle or plug-in hybrid electric motor vehicle.	75% of the cost of conversion through 2018; percentage falls thereafter.
2	Diesel-electric hybrid passenger vehicles with minimum fuel economy of 70 mpg.	15% of MSRP through 2018; percentage falls thereafter.
3	Conversions of passenger vehicles and light and medium duty trucks to diesel-electric hybrid vehicles that increase the vehicle's fuel economy by 40% or more.	25% of the cost of conversion through 2018; percentage falls thereafter.
4	Passenger vehicles and light and medium duty trucks originally manufactured to use compressed natural gas or liquefied petroleum gas.	12.25% of MSRP through 2016; 10.5% in 2017 and 2018; percentage falls thereafter.
4A	Environmental Protection Agency-certified conversions of passenger vehicles and light and medium duty trucks to use compressed natural gas or liquefied petroleum gas.	25% of the cost of conversion through 2018; percentage falls thereafter.
5	Installation of idling reduction technologies in any motor vehicle, including heavy duty trucks.	25% of the cost of installing the idling reduction technologies through 2018; percentage falls thereafter.

Source: Section 39-22-516.7, C.R.S.