



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 income tax credit, most recently modified by House Bill 16-1332, and provides information on the fixed income tax credit values available for passenger cars and trucks.

This income tax credit is available to all taxpayers who:

- purchase or lease certain alternative fuel vehicles;
- convert conventional vehicles to use a qualifying 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 income tax credit include:

- electric vehicles;
- plug-in hybrid electric vehicles;
- vehicles that use compressed natural gas or liquefied petroleum gas (propane); and
- vehicles that use liquefied natural gas or hydrogen.

The income tax credit may only be awarded for the purchase or lease of new vehicles, not

used vehicles. A qualifying lease must have a minimum duration of two years.

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.

State Income Tax Credit

Buyers of an alternative fuel vehicle are eligible for a state tax credit of \$5,000 in 2017, 2018, and 2019, and a reduced credit of \$4,000 in 2020 and \$2,500 in 2021, as shown in Table 1. Trucks with gross vehicle weight ratings over 8,500 pounds may qualify for larger credit amounts. The estimated revenue impact for this tax credit was \$4.5 million in 2013, the most recent year for which data are available.

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. Under current law, the tax credit for innovative motor vehicles is available only through tax year 2021. The state income tax credit is not available for hybrid vehicles that do not plug into an external electrical source.

When financing a new or leased vehicle, a purchaser may transfer the tax credit to the financing entity, who in turn offers a discount equal to the amount of the tax credit at the time of purchase. The financing entity may assess an administrative fee of no more than \$150 for

the transfer. If they do not transfer the tax credit to a financier, buyers of alternative fuel vehicles may claim the credit when filing their Colorado income taxes.

The federal credit is not refundable and may not be carried forward. For this reason, the maximum value of the credit is limited by a vehicle owner's tax liability for the tax year.

Federal Tax Credit

The federal government offers a federal income tax credit of up to \$7,500 for all electric and plug-in hybrid electric cars. As with the state tax credit, hybrid cars that are not plug-in do not qualify for the credit.

The federal income tax credit is based on the capacity of the battery used to power the vehicle. A list of qualifying cars and their expected tax credit can be found at the U.S. Department of Energy's website: <https://www.fueleconomy.gov/feg/taxevb.shtml>

**Table 1
State Income Tax Credits for Alternative Fuel Vehicles**

| Vehicle Type | Vehicle Type | Tax Year 2017 | Tax Year 2018 | Tax Year 2019 | Tax Year 2020 | Tax Year 2021 |
|---|----------------------|---------------|---------------|---------------|---------------|---------------|
| Purchased alternative fuel vehicle | Passenger Vehicles | | \$5,000 | | \$4,000 | \$2,500 |
| | Light duty trucks* | | 7,000 | | 5,500 | 3,500 |
| | Medium duty trucks** | | 10,000 | | 8,000 | 5,000 |
| | Heavy duty trucks*** | | 20,000 | | 16,000 | 10,000 |
| Leased alternative fuel vehicle | Passenger Vehicles | | \$2,500 | | \$2,000 | \$1,500 |
| | Light duty trucks* | | 3,500 | | 2,750 | 1,750 |
| | Medium duty trucks** | | 5,000 | | 4,000 | 2,500 |
| | Heavy duty trucks*** | | 10,000 | | 8,000 | 5,000 |
| Converted alternative fuel vehicle | Passenger Vehicles | | \$5,000 | | \$4,000 | \$2,500 |
| | Light duty trucks* | | 7,000 | | 5,500 | 3,500 |
| | Medium duty trucks** | | 10,000 | | 8,000 | 5,000 |
| | Heavy duty trucks*** | | 20,000 | | 16,000 | 10,000 |

Source: Sections 39-22-516.7 and 39-22-516.9, C.R.S.

* Light duty electric trucks have a gross vehicle weight rating (GVWR) of 8,500 pounds to 10,000 pounds.

** Medium duty electric trucks have a GVWR of 10,000 pounds to 26,000 pounds.

*** Heavy duty electric trucks have a GVWR of 26,000 pounds or more.