

# ***FYI – For Your Information***

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## ***Alternative Fuel Income Tax Credits***

### ***ALTERNATIVE FUEL VEHICLE CREDIT***

For tax years beginning on or after July 1, 1998, Colorado income tax credits are available for the purchase of an alternative fuel vehicle, for a motor vehicle that is converted to use alternative fuel, or for the replacement of the power source with a power source that uses alternative fuel. (C.R.S. §39-22-516)

To qualify, the vehicle must be titled and registered in Colorado and it must be used in connection with a business. If a vehicle is used part of the time for business use and part of the time for personal use, the credit must be prorated in proportion to the percentage of time during the tax year that the motor vehicle was used for business purposes.

For tax years beginning on or after July 1, 2000, alternative fuel vehicles used by individuals for personal use also qualify for this credit.

### ***Definition of Alternative Fuel***

Alternative fuel means compressed natural gas, propane, ethanol, or any mixture of ethanol containing 85% or more ethanol by volume with gasoline or other fuels, electricity, or any other fuels, which may include, but are not limited to, clean diesel and reformulated gasoline so long as these other fuels make comparable reductions in carbon monoxide emissions and brown cloud pollutants as determined by the air quality control commission.

### ***Computation of Credit***

The credit is a percentage of

- a) the difference between the cost of the vehicle and the cost of the same or most similar vehicle that uses a traditional fuel, or
- b) the cost incurred in converting the vehicle to an alternative fuel, or
- c) the difference between the cost of replacing the power source and the cost of the same or most similar power source that uses a traditional fuel.



Colorado Department  
of Revenue  
Taxpayer Service Division  
1375 Sherman St.  
Denver, Colorado 80261

Sales Tax: (303) 232-2416  
Withholding Tax: (303) 232-2416  
Income Tax: (303) 232-2446  
Severance Tax: (303) 232-2446  
Fuel Tax: (303) 205-5967

The percentage of the credit depends on the certification level of the vehicle and the year in which the expenditure is made.

Certification level	Tax year beginning prior to July 1, 2006	Tax year beginning on or after July 1, 2006, but prior to July 1, 2009	Tax year beginning on or after July 1, 2009, but prior to July 1, 2011
Low-emitting vehicle (LEV)	50%	25%	0%
Ultra-low-emitting vehicle or 75% Inherently-low-emitting vehicle (ULEV or ILEV)	75%	50%	25%
Zero-emitting vehicle (ZEV or SULEV)	85%	75%	50%

Certification levels have the same meaning as set forth in the air quality control commission regulations governing the clean fuel fleet program. A near zero-emitting vehicle shall be treated as a zero-emitting vehicle. At this time the California certified SULEV (Super ultra low emitting vehicle) is the only vehicle that qualifies as a near zero-emitting vehicle.

The percentage of the credit is doubled, up to a maximum of 100%, if the vehicle or power source permanently displaces (will never be operated on Colorado highways in the future) a vehicle or power source that is ten years old or older. You must provide a copy of the bill of sale to an out of state buyer or salvage yard to claim this extra credit.

***Limitations to the Credit***

A vehicle can qualify for this credit only one time.

For tax years beginning prior to January 1, 1999, if the expenditure qualifies at the low-emitting vehicle level, and the purchase is made in order to satisfy the minimum requirements of the clean fuel fleet program, the expenditure will not qualify for this credit. However, such expenditures (LEV) shall qualify for income tax years beginning on or after Jan. 1, 1999, but prior to July 1, 2011.

To the extent the allowable credit exceeds the tax liability, the excess may be carried forward for up to five years.

***Alternative Fuels Rebate***

If the motor vehicle that qualifies for the alternative fuel vehicle credit is owned by the State of Colorado, a political subdivision of the state, or a tax exempt organization, and is used in connection with the official activities of the entity, the entity will be eligible for a rebate in the same amount as the credit that would have been calculated under the guidelines of the alternative fuel vehicle credit. Each qualified entity is limited to \$350,000 per state fiscal year in total rebates paid. (§39-33-102 C.R.S.)

Qualified entities may apply for this credit with the following forms:

- "Alternative Fuels Rebate Instructions" (DR 0166)
- "Alternative Fuels Rebate Form" (DR 0167)
- "Dealer or Installer Certification Form" (DR 0168)

To obtain these forms, call the DOR Forms Hotline, (303) 232-2414.

**Common Questions**

*Does a low emitting vehicle that runs on traditional fuel (gasoline or diesel fuel) qualify for this credit?*

No. There is no incremental cost difference between the LEV vehicle and the most similar vehicle that runs on a traditional fuel because by definition it would always be an identical vehicle.

*Can a leased vehicle qualify for this credit?*

Lessees of qualifying vehicles are eligible for the alternative fuel vehicle credit. The available credit is calculated by subtracting the value of the vehicle when the lease expires from the cost of the vehicle to the lessor at the time of the lease transaction (capitalized cost), and dividing that amount by the cost of the vehicle to the lessor at the time of the lease transaction. This percentage is then multiplied by the qualifying expenses to determine the amount of the expenditure that can be used in computing the amount of the credit. Only the lessor or lessee of

the vehicle may claim the credit. If the vehicle is converted at the factory, the lessor has the option of claiming the credit or passing the right to claim the credit to the lessee. If the lessee converts the vehicle, then only the lessee may claim the credit.

**Common Questions**

*What percentage of the costs of a new facility will be eligible for the credit when the project includes a convenience store and traditional gas pumps?*

Only the incremental costs of the alternative fuel distribution system will qualify for the credit. No portion of the cost of the convenience store and other fuel systems will qualify for the credit.

*What costs qualify for the alternative fuel refueling facility credit when a facility for which a credit was previously claimed is updated and/or expanded?*

None. The law does not allow a credit to be claimed on a facility for which the credit was previously claimed.

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**ALTERNATIVE FUEL REFUELING FACILITY CREDIT**

For tax years beginning on or after January 1, 1998, but prior to January 1, 2011, Colorado income tax credits are available for the construction, reconstruction or acquisition of an alternative fuel refueling facility that is directly attributable to the storage, compression, charging or dispensing of alternative fuels to motor vehicles.

The percentage of the credit is determined by the tax year in which the costs are incurred:

Tax year beginning prior to Jan. 1, 2006	Tax year beginning prior to Jan. 1, 2009	Tax year beginning prior to Jan. 1, 2011
50%	35%	20%

**Increased Credit**

- 1) If 70% or more of the alternative fuel dispensed each year by the refueling facility is derived from a renewable energy source for ten years (certification must be provided upon request); and/or
- 2) If the refueling facility is generally accessible for use by persons in addition to the person claiming the credit,

The percentage of the credit will be multiplied by 1.25

**Limitations to the Credit**

The credit claimed by a taxpayer is limited to \$400,000 in any consecutive five-year period for each refueling facility.

This credit cannot be claimed on a refueling facility, or on any equipment used in connection with that facility, if **any** taxpayer has ever claimed the alternative fuel refueling facility credit for that facility.

To the extent the allowable credit exceeds the tax liability, the excess may be carried forward for up to five years.

## ***ENERGY CONSERVATION REBATE***

Any expenses reimbursed by a rebate issued by the Office of Energy Conservation or any other entity will not qualify for the income tax credits described in this FYI.

### ***Credit for tax years beginning prior to July 1, 1998***

For income tax years beginning prior to July 1, 1998 Colorado income tax credits were available for the purchase of a car or truck that used clean-burning alternative fuel or if a vehicle was converted to clean-burning alternative fuel within 120 days of the date of delivery to the taxpayer. Contact the Department of Revenue for additional information on this credit.

## ***FURTHER INFORMATION***

For more information on related topics, consult the following DOR publications:

- FYI General 1 “Department of Revenue Publications”;
- FYI General 5 “General Information about Colorado Taxes”;
- FYI General 8 “The FYI Program – Index and General Information”;
- FYI Sales 15 “Special Regulation: Automotive Repairs”;
- “Colorado Sales/Use Tax Rates” (DRP 1002).

Single FYIs are free from the Taxpayer Service Division. They may be obtained at any statewide taxpayer service center; by writing to the Colorado Department of Revenue, 1375 Sherman St., Denver, CO 80261; or by call the DOR Forms Hotline at (303) 232-2414. Please use the FYI number (General 1, Sales 9, etc.) when ordering FYI publications.

FYIs and commonly used forms are available on the Web at [www.revenue.state.co.us](http://www.revenue.state.co.us)

For a complete set of FYIs (approximately 140, on sales, income, excise and withholding taxes) you may purchase ***The Complete Book of FYIs*** at low cost from the State Forms Center, Division of Correctional Industries, 4200 Garfield St., Denver, CO 80216. An order form is contained in FYI General 1, or call the State Forms Center, (303) 321-4164 for ordering information.