

# ***FYI – For Your Information***

## ***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. To qualify, the vehicle must be titled and registered in Colorado. (C.R.S. 39-22-516)

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

Alternative fuel means compressed natural gas, propane, methanol and ethanol, or any mixture thereof containing 85% or more of methanol or 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 only available in the year during which the vehicle was purchased or converted.

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.

In a) and c) above, if the cost of the traditional fuel option is greater than or equal to the cost of the alternative fuel option, the credit will be \$0.



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

Forms and other services:  
(303) 238-FAST (3278)  
Assistance:  
(303) 238-SERV (7378)

[www.taxcolorado.com](http://www.taxcolorado.com)

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 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.

***Credits Available for Selected Common Vehicles***

The amount of the credit available has been computed based on a price comparison with the most similar vehicle using manufacturer and industry data.

**Toyota Prius**

2002 Toyota Prius:  
 Incremental price difference - \$4,622  
 Tax credit available \$3,929  
 2003 Toyota Prius:  
 Incremental price difference - \$3,612  
 Tax credit available \$3,070  
 2004 Toyota Prius:  
 Incremental price difference - \$3,150  
 Tax credit available \$2,678  
 2005 Toyota Prius:  
 Incremental price difference - \$ pending  
 Tax credit available \$ pending

**Honda Insight**

2002 Honda Insight:  
 Incremental price difference - \$3,970  
 Tax credit available \$3,375  
 2003 Honda Insight (Automatic):  
 Incremental price difference - \$3,670  
 Tax credit available \$3,120  
 2003 Honda Insight (Manual 5-speed):  
 Incremental price difference - \$3,470  
 Tax credit available \$2,603  
 2004 Honda Insight (Automatic):  
 Incremental price difference - \$5,070  
 Tax credit available \$4,310  
 2004 Honda Insight (Manual 5-speed):  
 Incremental price difference - \$5,070  
 Tax credit available \$3,803  
 2005 Honda Insight (Automatic):  
 Incremental price difference - \$ pending  
 Tax credit available \$ pending  
 2005 Honda Insight (Manual 5-speed):  
 Incremental price difference - \$ pending  
 Tax credit available \$ pending

**Honda Civic Hybrid**

2003 Honda Civic Hybrid (Automatic):  
 Incremental price difference - \$3,215  
 Tax credit available \$2,411  
 2003 Honda Civic Hybrid (Manual 5-speed):  
 Incremental price difference - \$3,015  
 Tax credit available \$2,261  
 2004 Honda Civic Hybrid (Automatic):  
 Incremental price difference - \$3,440  
 Tax credit available \$2,580  
 2004 Honda Civic Hybrid (Manual 5-speed):  
 Incremental price difference - \$3,240  
 Tax credit available \$2,430  
 2005 Honda Civic Hybrid (Automatic):  
 Incremental price difference - \$ pending  
 Tax credit available \$ pending  
 2005 Honda Civic Hybrid (Manual 5-speed):  
 Incremental price difference - \$ pending  
 Tax credit available \$ pending

The tax credit for the 2003 Honda Civic Hybrid was updated June 2003 based on additional information provided by the manufacturer. Taxpayers who purchase this vehicle during 2002 and claimed a lower tax credit on the 2003 Colorado income tax may file an amended return, form 104X, to claim the increased credit.

### **Honda Civic GX**

2004 Honda Civic GX (Natural Gas):

Incremental price difference - \$4,500

Tax credit available \$3,825

2005 Honda Civic GX (Natural Gas):

Incremental price difference- \$ pending

Tax credit available \$ pending

### **Ford Escape Hybrid** (2&4 Wheel Drive)

2005 Ford Escape:

Incremental price difference - \$ pending

Tax credit available \$ pending

### **NEIGHBORHOOD ELECTRIC VEHICLES (NEV)**

NEVs do not qualify for the alternative fuel vehicle credit because they cannot be operated on Colorado highways.

[39-22-516(2.5)(a)(III) C.R.S.]

### ***Limitations to the Credit***

- A vehicle can qualify for this credit only one time. To claim the credit on the purchase of a used vehicle a taxpayer must:

- (a) Provide a history of the vehicle indicating the prior owners and why they did not claim this credit.

- (b) Provide the cost difference used in computing the credit and the basis on which it is computed.

The cost difference will usually decrease ratably with the decrease in the value of the vehicle. For example, if the price paid for the used vehicle is 40% of the original MSRP, then the credit allowed will be 40% of the credit available for that vehicle when new.

If a ten-year old vehicle had a new alternative fuel engine put in one-year ago, then the vehicle must be compared to the most similar vehicle valued with a one year old gas engine, not a ten-year old engine.

- For tax years beginning prior to July 1, 2000, alternative fuel vehicles must have been used in connection with a business to qualify for this credit. For most individuals this means that a personal use vehicle must have been purchased on or after January 1, 2001 to qualify for this credit. For 1999 and 2000, if a vehicle was 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.

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

### ***Common Questions***

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

No. The low emitting vehicle operates on traditional fuel and therefore could not be distinguished from the same model of car.

*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.

### ***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. (C.R.S. 39-33-102).

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

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

### **ALTERNATIVE FUEL REFUELING FACILITY CREDIT**

For tax years beginning 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: 50%
- Tax year beginning prior to Jan. 1, 2009: 35%
- Tax year beginning prior to Jan 1, 2011: 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.

### **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.

### **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.

***FURTHER INFORMATION***

FYIs, commonly used forms and additional tax information are available on the Web at *www.taxcolorado.com*

For additional income tax information visit the "Tax Information Index" at *www.taxcolorado.com*

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.