

FYI – For Your Information

Alternative Fuel Income Tax Credits

ALTERNATIVE FUEL VEHICLE CREDIT

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. (§39-22-516 C.R.S.)

The credit is only available in the year during which the vehicle was purchased or converted. If the credit allowed exceeds the net tax liability for that year, any excess credit may be carried forward and claimed on future year returns for up to five years until the credit is fully utilized.

Definition of Alternative Fuel

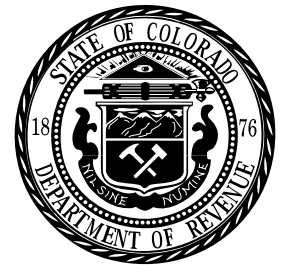
Alternative fuel means compressed natural gas, propane, methanol and ethanol, or any mixture thereof containing 85% or more of methanol or ethanol by volume with gasoline or other fuels, electricity, or any other fuels, which may include, but are not limited to, clean diesel and reformulated gasoline 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 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.



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(303)238-FAST(3278)
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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 January 1, 2010 | Tax year beginning on or after January 1, 2010, but prior to January 1, 2012 |
|--|---|--|
| Low-emitting vehicle (LEV) | 50% | 25% |
| Ultra-low-emitting vehicle or Inherently-low-emitting vehicle (ULEV or ILEV) | 75% | 50% |
| Zero-emitting vehicle (ZEV or SULEV) | 85% | 75% |

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 rating 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.

Non-Qualifying Vehicles

"Mild" Hybrid Vehicles

Mild hybrid vehicles such as the Chevrolet Silverado, Dodge Ram, and GMC Sierra do not qualify for the alternative fuel vehicle credit.

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.]

Used Vehicles

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 and receipts 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.

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.

Does the purchase of a vehicle that can operate solely on traditional fuel, but can also operate on alternative fuel at the owner's option, qualify for the alternative fuel vehicle credit?

No. A vehicle that can operate solely on traditional fuel does not qualify for the alternative fuel vehicle credit. A qualifying vehicle must:

- operate solely on the alternative fuel, or
- operate on alternative fuel and traditional fuel at the same time, or
- operate on alternative fuel some of the time and on traditional fuel some of the time.

Furthermore, the cost of a flex fuel or dual fuel vehicle is the same as the most similar vehicle that can operate exclusively on traditional fuel, which results in a credit of \$0 (e.g. most vehicles that can use E85 fuel or biodiesel).

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- GOVERNMENTAL AND CHARITABLE ORGANIZATIONS

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 computed in the same manner as the credit that would have been calculated under the guidelines of the alternative fuel vehicle credit using the percentages in the chart on page 4. 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 rebate with the following forms:

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

See ***Credits Available for Selected Common Vehicles Chart on pages 5 and 6.***

Chart includes:

- Ford Escape Hybrid (2005,2006,2007)
- Honda Accord Hybrid (2005, 2006)
- Honda Civic GX (2004, 2005)
- Honda Civic Hybrid (2003, 2004, 2005, 2006)
- Honda Insight (2002, 2003, 2004, 2005, 2006)
- Lexus RX 400 Hybrid (2006)
- Mercury Mariner (2006, 2007)
- Toyota Highlander Hybrid (2006)
- Toyota Prius (2001, 2002, 2003, 2004, 2005, 2006)

| Alternative Fuels Rebate Chart | | | |
|--|---|---|---|
| Certification level | For costs incurred prior to July 1, 2006 | For costs incurred on or after July 1, 2006, but prior to July 1, 2009 | For costs incurred 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% |

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 or rebate described in this FYI.

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.

Ford Escape Hybrid

2005 Ford Escape (Front Wheel Drive):
Incremental price difference \$3,245
Tax credit available \$ 2,758

2005 Ford Escape (Four Wheel Drive):
Incremental price difference \$3,290
Tax credit available \$2,797

2006 Ford Escape (Front Wheel Drive):
Incremental price difference \$3,325
Tax credit available \$ 2,826

2006 Ford Escape (Four Wheel Drive):
Incremental price difference \$3,360
Tax credit available \$2,856

2007 Ford Escape (Front Wheel Drive):
Incremental price difference \$2,285
Tax credit available \$ 1,942

2007 Ford Escape (Four Wheel Drive):
Incremental price difference \$2,320
Tax credit available \$1,972

Honda Accord Hybrid

2005 Honda Accord Hybrid:
Incremental price difference \$3,915
Tax credit available \$ 2,936

2006 Honda Accord Hybrid:
Incremental price difference \$3,775
Tax credit available \$ 3,209

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 \$4,500
Tax credit available \$ 3,825

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 \$3,075
Tax credit available \$ 2,306

2005 Honda Civic Hybrid (Manual 5-speed):
Incremental price difference \$2,875
Tax credit available \$ 2,156

2006 Honda Civic Hybrid:
Incremental price difference \$3,375
Tax credit available \$2,531

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

Chart Continued on page 6 . . .

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.

Honda Insight (continued)

2004 Honda Insight (Manual 5-speed):
Incremental price difference \$5,070
Tax credit available \$3,803

2005 Honda Insight (Automatic):
Incremental price difference \$5,545
Tax credit available \$4,713

2005 Honda Insight (Manual 5-speed):
Incremental price difference \$5,575
Tax credit available \$ 4,181

2006 Honda Insight (Automatic):
Incremental price difference \$5,220
Tax credit available \$4,437

2006 Honda Insight (Manual 5-speed):
Incremental price difference \$5,020
Tax credit available \$ 3,765

Lexus RX 400h Hybrid

2006 Lexus RX 400h
(purchased prior to 11/1/05):
Incremental price difference \$4,395
Tax credit available \$ 3,736

2006 Lexus RX 400h
(purchased on or after 11/1/05):
Incremental price difference \$4,050
Tax credit available \$ 3,443

Mercury Mariner Hybrid

2006 Mercury Mariner
Incremental price difference \$3,715
Tax credit available \$3,158

2007 Mercury Mariner
Incremental price difference \$2,665
Tax credit available \$2,265

Toyota Highlander Hybrid

2006 Toyota Highlander (Base Grade)
(purchased prior to 11/1/05):
Incremental price difference \$4,555
Tax credit available \$3,872

2006 Toyota Highlander (Limited Grade)
(purchased prior to 11/1/05):
Incremental price difference \$4,500
Tax credit available \$3,825

2006 Toyota Highlander (Base Grade)
(purchased on or after 11/1/05):
Incremental price difference \$4,305
Tax credit available \$3,659

2006 Toyota Highlander (Limited Grade)
(purchased on or after 11/1/05):
Incremental price difference \$4,220
Tax credit available \$3,587

Toyota Prius

2001 Toyota Prius:
Incremental price difference \$4,172
Tax credit available \$3,546

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 \$4,040
Tax credit available \$ 3,434

2006 Toyota Prius:
Incremental price difference \$3,865
Tax credit available \$ 3,285

FURTHER INFORMATION

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

For additional Colorado income tax information visit the "Tax Information Index" which covers a variety of topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located 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.