Fact Sheet

April 2005

2004/2005 Federal Tax Deduction: Hybrid Electric Vehicles

Can I get a tax deduction for my HEV?

YES. The Federal Clean-Fuel Vehicle property tax deduction can be claimed for qualifying hybrid electric vehicles (HEVs). The deduction applies to both personal and business vehicles. To qualify for the Clean-Fuel Vehicle tax deduction, vehicles must be certified by the Internal Revenue Service (IRS) as being eligible for the deduction.

How much can I deduct for my HEV?

Owners of certified vehicles can claim a one-time deduction of $2,000 for the year the vehicle is first used, if that year is before 2006. In 2006 the deduction is scheduled to drop to $500.

What other requirements are there for claiming the deduction?

You must purchase the vehicle new and for your own use (not for resale) and drive it mostly in the United States. The deduction cannot be claimed by government agencies, tax-exempt organizations, or foreign entities.

Where on my tax form do I put the HEV deduction?

For the 2004 and 2005 tax years, the tax deduction is taken as an adjustment to income on IRS form 1040 in the "Adjusted Gross Income" section. For the 2004 tax year, enter the amount of the deduction and the words "Clean Fuel" on line 35. You can claim it whether you itemize or take the standard deduction. For vehicles purchased solely for business use, claim the deduction on the "other expenses" line of Schedule C (1040) or Schedule F (1040).

What if I bought my car before 2004?

You can file an amended tax return (Form 1040X) to claim the deduction for the tax year in which you purchased the vehicle. Generally you can amend returns for up to three years from the original return's due date.

Will HEVs be eligible for tax deductions in the future?

The deduction will remain at $2,000 for tax year 2005. In 2006, the deduction is scheduled to drop to $500. After 2006, the IRS does not expect to allow a deduction.

2005 Available Light-duty HEVs*

Manufacturer	Model	IRS Certified?	Model Year
Ford	Hybrid Escape	Yes	2005
Toyota	Prius	Yes	2001-2005
Honda	Civic Hybrid	Yes	2003-2005
Honda	Insight	Yes	2000-2005
Honda	Accord Hybrid	Yes	2005

* The IRS continually certifies new HEV models. Check the IRS Web site at *www.irs.gov* for the latest information on qualified vehicles.

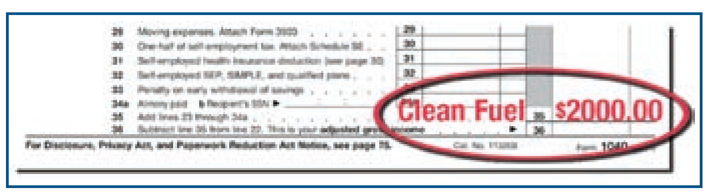
Can I also claim the electric vehicle tax credit for my HEV?

No. Because current hybrid vehicles are certified as being primarily gasoline powered, they are not eligible for the electric vehicle tax credit. To learn more about tax incentives for dedicated electric vehicles, see IRS form 8834 on the IRS website at *www.irs.gov*.

See IRS publication 535 for information on federal tax deductions for other clean fuel and alternative fuel vehicles.

Where can I find more information?

- **Internal Revenue Service** *www.irs.gov or 1-800-829-1040*
- **National Alternative Fuels Hotline** 800-423-1363 or *www.eere.energy.gov/afdc/resources/hotline.html*
- **Clean Cities Hybrid Electric Vehicles Web page** *www.eere.energy.gov/cleancities/hev/*



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State Incentives: Hybrid Electric Vehicles

CO: An income tax credit is available from the Colorado Department of Revenue for the incremental cost of purchasing an HEV. To learn more, visit the Colorado Tax Web site at *www.revenue.state.co.us/fyi/html/income09.html*.

CT: New HEVs with a U.S. Environmental Protection Agency (EPA) fuel economy rating of at least 40 mpg are exempt from sales tax. To learn more, see the State of Connecticut Department of Revenue Services at *www.ct.gov/drs*.

FL: HEVs that are certified and labeled in accordance with federal regulations may be driven in high occupancy vehicle (HOV) lanes at any time, regardless of the number of passengers in the vehicle. To learn more visit the Florida Division of Motor Vehicles at *www.hsmv.state.fl.us*.

KY: Organizations or individuals located in non-attainment areas are eligible for Congestion Mitigation and Air Quality Improvement Program vehicle rebates for HEVs operating within a fleet. To learn more, visit the Kentucky Department of Revenue at *revenue.ky.gov/*.

ME: A partial sales tax credit of approximately $500 is available for hybrid cars that *do not* have a comparable vehicle model, such as the Toyota Prius and Honda Insight. A credit of approximately $300 is available for cars that *do* have a comparable gasoline-powered model, such as the hybrid Honda Civic. To learn more, visit Maine Revenue Services at *www.state.me.us/revenue/*.

NJ: New Jersey's Alternate Fuel Vehicle (AFV) Rebate Program offers rebates to local government for HEVs. The rebate amounts vary according to the vehicle weight class and incremental cost. To learn more visit the New Jersey Division of Taxation at *www.state.nj.us/treasury/taxation/index.html.*

NM: HEVs with a EPA fuel economy rating of at least 27.5 miles per gallon are eligible for a one-time exemption from the motor vehicle excise tax.

NY: New York's Alternative Fuel (Clean Fuel) Vehicle Tax Incentive Program offers a sales tax exemption for qualified HEVs equal to $3000 unless the vehicle manufacturer certifies a higher incremenal cost. To learn more visit the New York State Department of Taxation and Finance at *www.tax.state.ny.us/.* There is also a tax credit of $2,000 for purchasers of qualified HEVs, see *www.eere.energy. gov/afdc/laws/incen_laws.html* for details.

OR: A Business Energy Tax Credit is available for the incremental cost of purchasing HEVs. The tax credit is 35% of the incremental cost of the system or equipment and is taken over five years. A Residential Tax Credit of up to $1,500 is available for the incremental cost of a HEV. For more information visit the Oregon Department of Revenue at *egov.oregon.gov/DOR/.*

PA: The purchase of a HEV is eligible for funding under the Alternative Fuels Incentive Grant Program; funding amounts vary. For more information visit the Pennsylvania Alternative Fuels Incentive Grant program at *www.dep.state.pa.us/dep/deputate/pollprev/AFIG/afvafig1.htm.*

UT: Utah allows a credit for 50%of the incremental cost ($3,000 maximum) of a Honda Civic HEV.

VT: Businesses in Vermont that are involved exclusively in designing, developing, and manufacturing electric vehicles, AFVs, or HEVs are eligible for certain income tax credits. For more information, visit the Vermont Department of Taxes at *www.state.vt.us/tax/index.shtml.*

VA: AFVs displaying the Virginia "Clean Special Fuels" license plate can use the Virginia HOV lanes, regardless of the number of occupants, until July 1, 2006. The Toyota Prius, and Honda Insight and Civic HEVs qualify. For more information, visit the Virginia Department of Motor Vehicles at *www.dmv.state.va.us/webdoc/citizen/vehicles/cleanspecialfuel.asp*.

WA: Effective June 13, 2002, HEVs that obtain a rating by the U.S. EPA of at least 50 miles per gallon during city driving are exempt from emissions control inspections.

Where can I find more information?

- **Clean Cities Hybrid Electric Vehicles Web page** *www.eere.energy.gov/cleancities/hev/*
- **National Alternative Fuels Hotline** 800-423-1363 or *www.eere.energy.gov/afdc/resources/hotline.html*
- **Alternative Fuels Data Center State Laws and Incentives Web page** *www.eere.energy.gov/afdc/laws/incen_laws.html*

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