

Will My New Commercial Vehicle Qualify for the Clean Vehicle Credit? Tax Saving Tips for Small Business Owners

Since the introduction of the Inflation Reduction Act this August, the online business community has developed a new obsession with writing off car expenses. Amid all the social media hype and potentially misleading teasers, small business owners would be wise to invest time in understanding the actual requirements for this tax credit before investing money in a new electric or hybrid vehicle.

Qualifying for the “Commercial Clean Vehicle Credit” requires more than simply purchasing a car in your business name or using your business credit. Business owners who do qualify can **save as much as \$7,500 to \$40,000** when they buy a commercial clean vehicle starting January 1, 2023 through December 31, 2032.

With all the changes from the previous clean vehicle tax credit to the new one, not to mention the differences between the personal and business versions, it can be hard to keep track of which requirements apply in your situation. **Talk to a Certified Tax Planner** to incorporate clean commercial vehicles into your tax plan—and read on to learn more about this exciting tax savings opportunity!

WHAT IS A COMMERCIAL CLEAN VEHICLE?

Luckily, Congress has added a definition for a “commercial clean vehicle” to the tax code. [Section 45W](#) clarifies that one way to secure the tax credit is to qualify as a “[new clean vehicle](#),” which must meet the following criteria:

- Acquired for use or lease by the taxpayer and not for resale
- Made by a qualified manufacturer
- Treated as a motor vehicle
- Has a [gross vehicle weight rating](#) of under 14,000 pounds
- Propelled by an electric motor which draws from a qualifying electric battery or otherwise meets the [alternative motor vehicle requirements](#)
- Final assembly occurred within North America
- Meets requirements for battery and mineral sourcing in North America

Weight limit. Since an electric vehicle’s weight affects how efficient it is, manufacturers aim to make commercial vehicles as light as possible. To take one example, the Ford E-Transit line of all-electric cargo vans weighs under 14,000 pounds. Manufacturers will likely come out with more electric buses and shuttles within the next 10 years in response to the updated clean vehicle credit.

Battery Requirement. Buyers should note that a commercial clean vehicle does not have to be fully electric to qualify. The rules for the “alternative motor vehicle credit” include plug-in electric vehicles and fuel cell motor vehicles. While this expands the list of potential vehicles, the kicker

is the assembly and material sourcing requirements—many manufacturers still handle these needs outside of North America and therefore do not qualify.

A qualified new clean vehicle must be manufactured primarily for use on public streets, roads, and highways. However, other business vehicles may qualify under the category of “[mobile machinery](#).” This inclusion could be a game changer for businesses that use vehicles with a chassis that has been permanently mounted to perform a certain job. These jobs include:

- Construction
- Drilling
- Farming
- Manufacturing
- Mining
- Processing
- Timbering
- Similar operations to the above

The above industries now have the potential to receive the commercial clean vehicle credit. Companies like John Deere are already introducing [lines of electric equipment](#), such as their self-propelled combine harvester. If the clean version is similar in weight (~33,869 lbs) and price (\$159,000 to \$179,500) to the diesel version, this machine could qualify for a credit of as much as \$26,926—which amounts to about 15% of the retail price.

HOW MUCH OF THE CREDIT WILL I RECEIVE?

First, the maximum tax credit available is determined by the overall value of the vehicle. This amount will be the lesser of these two calculations:

- 15% of the basis of the commercial clean vehicle (or 30% if the vehicle is not powered by a gasoline or diesel combustion engine), or
- The incremental cost of the vehicle

The “basis” of a vehicle is the total cost to you to purchase the vehicle. The “incremental cost” is the difference between the clean vehicle and a comparable vehicle (similar in size and use) that is not clean.

Second, the vehicle’s weight factors into the total tax credit. Congress limits the credit to:

- \$7,500 for vehicles with gross vehicle weight ratings of less than 14,000 pounds, or
- \$40,000 for heavier vehicles

Lastly, the tax credit is applied for the year that the taxpayer puts the vehicle in service—or started using it for business purposes.

Let’s look at a couple examples to see the calculations and limitations for the tax credit in practice:

Example #1: Derby Construction purchases a fleet of four 2023 Ford F-150 Lightning Lariats in 2023. The base price is \$74,474 each, and each vehicle weighs 6,500 pounds when equipped with a battery. Since the Lariat is not powered by a gasoline or diesel internal combustion engine, the vehicles could be eligible for a credit of up to 30% of its base price. However, due to the weight of the vehicle, the maximum credit is limited to \$7,500 per truck.

Example #2: The owner of Haverhill Construction also purchases a 2023 Ford F-150 Lightning Lariat, but he hopes to claim the \$7,500 clean vehicle credit for himself as an individual taxpayer and as a commercial vehicle tax credit for the business. However, Congress has been clear that the same vehicle cannot be used to claim both the general clean vehicle credit and the commercial clean vehicle credit. Fortunately, Mr. Haverhill was working with a Certified Tax Planner who was able to advise him on this restriction and help him determine which of the two tax credits to pursue.

SUMMARY

Fortunately for small business owners, the Inflation Reduction Act has extended the clean vehicle credit to qualified commercial clean vehicles. The inclusion of mobile machinery also means that businesses in industries like construction, farming, mining, and timbering could significantly benefit from this tax benefit.

However, the updates to this tax credit are particularly complex, and busy business owners may find themselves struggling to interpret the tax provisions and figure out how to qualify. For assistance in understanding the commercial clean vehicle credit and planning a potential purchase, **reach out to a Certified Tax Planner today.**