



# Federal Tax Credits For Clean Fuel Buses and Infrastructure

December 11, 2006

We're often asked what tax incentives are available for the purchase of hybrid, CNG and other alternative fuel buses. This information sheet describes the tax credits established by the US Energy Policy Act of 2005. This information is based on our understanding of the legislative language. Ultimately, IRS guidance will clarify how to calculate and claim these tax credits. As of December 2006, this guidance has not yet been issued, although the tax credits are in effect.

## Vehicle Tax Credits

EPACT provides tax incentives for clean fuel vehicles with a gross vehicle weight (GVW) more than 26,000 pounds, which captures transit buses of various sizes.

- Hybrid, fuel cell and alternative fuel vehicles qualify for different tax credits.
- Credits are for "new, qualified" vehicles.
- All credits are effective for vehicles placed in service after December 31, 2005. They have varying expiration dates.
- The tax credit goes to the buyer of new vehicles. However, if the buyer is a non-tax-paying entity, such as a public transit agency, the bill lets the seller take the tax credit, thus allowing the seller to pass along the savings to the non-tax paying buyer, through a reduced purchase price. The law does not require the seller to lower the vehicle price, but it does require them to show that they disclosed the amount of allowable tax credit to the buyer.

**Hybrid Buses:** Buyers can take a tax credit of 20%, 30% or 40% of the price premium of a new, qualified hybrid bus over a comparable vehicle. A qualified hybrid uses both an internal combustion engine or heat engine and a rechargeable energy storage system for propulsion.

The maximum eligible incremental cost is \$30,000. The credited percentage depends on the city fuel economy increase achieved by the hybrid relative to a comparable vehicle. The hybrids must be certified for fuel economy. The certification process is still being developed.

The chart below shows the maximum credit allowed for each of the three levels of fuel economy improvements.

Tax Credits for Hybrid Vehicles Over 26,000 Pounds GVW		
% Fuel Economy Increase	Tax Credit %	Maximum Credit (with \$30,000 incremental cost)
$30\% \leq \text{FE increase} < 40\%$	20%	\$ 6,000
$40\% \leq \text{FE increase} < 50\%$	30%	\$ 9,000
$50\% \leq \text{FE increase}$	40%	\$12,000

These credits expire on December 31, 2009.



**Alternative Fuel Buses:** Purchasers of new dedicated alternative fuel buses receive a tax credit equal to 50% of the incremental cost of the vehicle, plus an additional 30% of the incremental cost for vehicles certified as meeting more stringent emissions standards. Qualified alternative fuels are compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen and methanol (minimum 85% mix). The maximum eligible incremental cost for buses is \$40,000. Therefore, the potential tax credits are:

- up to \$20,000 for the 50% tax credit
- up to \$32,000 if both the 50% and 30% tax credit are taken

The credits expire on December 31, 2010.

**Mixed Fuel Buses:** Buses that use a mix of alternative fuel and petroleum-based fuel qualify for a percentage of the alternative fuel vehicle credit. For a 75/25 mixed fuel, where 75% is the alternative fuel, the buyer can take 70% of the corresponding alternative fuel vehicle credit. A 90/10 vehicle, with at least 90% alternative fuel, qualifies for 90% of the corresponding credit.

**Fuel Cell Buses:** Buyers of a new fuel cell buses are eligible for a \$40,000 tax credit. Credits expire on December 31, 2014.

### **Alternative Fuel Refueling Equipment**

This legislation also gives tax credits equal to 30% of the cost of alternative fuel refueling equipment. The credits allowed are:

- up to \$30,000 in the case of large stations
- up to \$1,000 for home refueling appliances

Qualifying fuels are those where at least 85 percent of the volume is one or more of the following: ethanol, natural gas, compressed natural gas, liquefied natural gas, liquefied petroleum gas, or hydrogen. A mixture of at least 20% biodiesel with diesel also qualifies. The credit expires on December 31, 2009.

### **Other Tax Incentives or Grants**

Many states and localities offer tax incentives for clean fuel vehicle purchases, although these are usually for passenger vehicles. Some, like New York State, have clean bus grant programs. To find information on these programs, we suggest looking here:

Fuel cell incentives: <http://www.fuelcells.org/info/statedatabase.html>

All alternative fuel vehicle incentives: [http://www.eere.energy.gov/afdc/progs/ddown\\_matrx.cgi](http://www.eere.energy.gov/afdc/progs/ddown_matrx.cgi)

**Bus buyers should look for IRS guidance on how to calculate and claim these tax credits, as well as how to certify vehicles if required.**

**For further information, see the Department of Energy's EPA Act summary website:**  
[http://www.eere.energy.gov/afdc/laws/epact\\_2005.html](http://www.eere.energy.gov/afdc/laws/epact_2005.html)

**For the full bill, go to <http://thomas.loc.gov/> and search for bill number "HR 6".**