

JO Knows New and Modified Energy Credits – Part II

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We reached out earlier with news about energy efficiency tax credits available to individual taxpayers in 2023 from replacing certain features and appliances in your home (such as doors, windows, boilers, etc.). A maximum credit of \$1,200 is allowed each year for those types of expenditures, which is a significant improvement over the lifetime credit of \$500 that existed previously. [If you didn't catch that email, you can find it here.](#) Today we'll discuss the electric vehicle tax credit, which also came about as a result of the Inflation Reduction Act from last August.

At first pass, the electric vehicle tax credit seems like an excellent tax savings opportunity for many of our tax clients who may be interested in purchasing a new or used electric vehicle. That's because taxpayers are, in theory, entitled to an electric vehicle tax credit of up to \$7,500 for the purchase of electric vehicles. Unfortunately, there are several qualifications that limit the applicability of the credit. First, the credit in 2023 will be allowed only for electric vehicles with a MSRP less than or equal to \$55,000 and electric trucks, SUVs, and vans with a MSRP less than or equal to \$80,000. Second, there are income limits; generally, if a married couple has income of more than \$300,000 they will be phased out of the credit entirely.

Perhaps most significantly, as the law currently stands, it would make many of the electric vehicle purchases in 2023 *per se* ineligible for the credit due to the requirement that vehicles have a "final assembly" in North America. In addition, the law has a clause that phases in over the next few years designed to force automakers to use U.S. materials for batteries (which are currently being imported from China). Automakers claim that this is impossible at this time and so virtually all EV's would be ineligible for the credit when this clause takes effect. The regulations related to which vehicles will be eligible for a credit in 2023 are still being defined by the IRS and we will provide updates as more information becomes available.

If you are interested in purchasing a new or used electric vehicle in 2023, please reach out to your JO advisor so that we can discuss the options and limitations and ensure that you're eligible to receive the tax credit you're hoping for.

To learn more, reach out to Johnson O'Connor's Individual, Trust and Estate Team.

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