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Clean Vehicle Tax Credit Transfers to Car Dealers

On October 6, 2023, the Internal Revenue Service (IRS) issued proposed regulations for transfers of clean vehicle tax credits from consumers to car dealers. The proposed regulations apply to the *clean vehicle credit* (CVC) and the *used clean vehicle credit* (UCVC), both of which were enacted under the Inflation Reduction Act of 2022 (P.L. 117-169, IRA). The proposed regulations detail how transferred credits—unlike credits claimed when tax returns are filed—may exceed total income tax liabilities.

The Clean Vehicle Credit

Taxpayers acquiring new electric vehicles and fuel cell vehicles may qualify for a clean vehicle credit. The CVC is described in Section 30D of the Internal Revenue Code (IRC). The Joint Committee on Taxation (JCT) projects that the credit would reduce federal revenues by $19 billion between FY2023 and FY2027.

Eligible vehicles must have been acquired before 2033 and have undergone final assembly in North America. Individuals and businesses may claim the credit for at most one vehicle per year.

The credit amount is $3,750 for vehicles meeting the *critical minerals requirement* plus $3,750 for vehicles meeting the *battery components requirement*, for a maximum total credit of $7,500. To meet the former requirement, a car's battery must meet or exceed a certain threshold percentage of critical minerals that were extracted or processed in the United States or a country with which the United States has a free trade agreement, or must have been recycled in North America. The threshold percentage starts at 40% in 2023 and rises gradually to 80% in 2027 and subsequent years. To meet the *battery components requirement*, at least a certain share of a battery's component parts must be manufactured or assembled in North America. The share starts at 50% in 2023 and rises to 100% in 2029 and later years. In addition, vehicles acquired after 2023 cannot use battery components manufactured or assembled by a foreign entity of concern (FEOC); for vehicles acquired after 2024, no applicable critical minerals in the vehicle's battery may come from a FEOC. Under preliminary regulations from the IRS, FEOCs would include companies operating in or significantly influenced by the governments of China, Russia, North Korea, or Iran.

To receive the credit, a taxpayer's modified adjusted gross income (MAGI) for either the current or previous year must be at or below $300,000 for married couples, $225,000 for heads of household, and $150,000 for single filers and others. For purposes of the clean vehicle tax credits, MAGI is equivalent to adjusted gross income excluding deductions for expatriates and residents of American territories. When claimed on a taxpayer's income tax return, the credit is *nonrefundable*, meaning that credit amounts in excess of tax liability are not refunded to the taxpayer.

The Used Clean Vehicle Credit

The used clean vehicle credit, described in IRC Section 25E, provides a tax credit for purchases of used electric or fuel cell vehicles. In 2022, the JCT projected that the credit would reduce federal revenues by $0.4 billion between FY2022 and FY2026.

To qualify for the UCVC, a vehicle must be purchased from a licensed dealer for $25,000 or less. The vehicle must be acquired no later than December 31, 2032, and the vehicle's model year must be at least two years before the year of purchase. The credit can be claimed once per vehicle.

The credit equals 30% of the vehicle's sales price up to a maximum of $4,000 (when the price exceeds $13,333). Because the UCVC cannot be claimed for vehicles costing more than $25,000, the value of the credit falls from $4,000 to $0 when a car's price rises from $25,000 to $25,001.

Individuals and couples are eligible for the credit; business entities are not. The taxpayer must purchase the vehicle for personal use, not for resale, and cannot have claimed another UCVC in the previous three years. The taxpayer's MAGI for either the current or previous year must be at or below $150,000 for married couples, $112,500 for heads of household, and $75,000 for single filers and others. When claimed on taxpayers' income tax returns, credit amounts in excess of tax liabilities cannot be received as refunds.

Credit Transfers to Car Dealers and the Increased Value of Transferred Credits

Starting January 1, 2024, taxpayers may claim the CVC and the UCVC as rebates when purchasing their vehicles. To claim the credits as rebates, taxpayers must transfer the credit to the car dealer, who then receives the credit from the government. Car dealers in turn must compensate taxpayers with either a cash payment or a reduced price on the car; the value of the cash payment or price reduction must equal the value of the applicable credit. Buyers cannot transfer partial credits, and credits transferred to eligible dealers are increased by 6.0445%. A 2022 survey finds that prospective car buyers prefer such point-of-sale rebates to traditional tax credits, with the immediacy of the rebates being an important factor for most consumers. The preference for rebates is strongest among low-income buyers, used car buyers, and buyers of low-priced vehicles.

Taxpayers who transfer a credit must still file Form 8936 with their income tax return and indicate that they claimed the CVC or the UCVC earlier in the year. Dealers must inform taxpayers of the relevant MAGI limits, and taxpayers must attest that they expect to be eligible for the given credit. Taxpayers who transfer a credit but exceed the limits must pay back the credit to the IRS when filing their taxes.

For many taxpayers, the difference between a transferred credit and a credit received at tax time is a matter of convenience; the monetary value of the credit does not change. However, for low-income taxpayers, one aspect of the proposed IRS regulations would significantly increase the value of the credits. Specifically, the regulations state that "the amount of the clean vehicle credit an electing taxpayer may transfer ... can exceed the electing taxpayer's regular tax liability." This rule applies to the UCVC as well.

Because of the design of the federal income tax, low-income taxpayers often have little to no income tax liability. Thus, they generally do not receive the full value of nonrefundable credits. By allowing transferred credits to exceed income tax liabilities, the IRS regulations would increase the CVC and the UCVC to their maximum value for all eligible taxpayers below the MAGI thresholds.

The regulations proposed by the IRS would significantly increase the value of the CVC and the UCVC for low-income taxpayers who transfer the credits, as illustrated in **Table 1** and **Table 2**. The total benefit to low-income households would also depend on the extent to which they purchase qualifying vehicles and (in the case of the UCVC) the prices of the purchased vehicles.

Table 1. Clean Vehicle Credits for Married Couples

Nonrefundable vs. transferred CVC amounts for stylized examples of married couples, by AGI, tax year 2024

Adjusted Gross Income (AGI)	Nonrefundable Credit Amount	Transferred Credit Amount
Vehicle Meeting Both Domestic Content Requirements		
$20,000	$0	$7,500
$60,000	$3,233	$7,500
$125,000	$7,500	$7,500
$350,000	$0	$0
Vehicle Meeting One of Two Domestic Content Requirements		
$20,000	$0	$3,750
$60,000	$3,233	$3,750
$125,000	$3,750	$3,750
$350,000	$0	$0

Source: CRS calculations.

Notes: All couples are assumed to claim the standard deduction and no other nonrefundable tax credits. The couple earning $350,000 is assumed to have earned more than $300,000 in 2023. MAGI is assumed to equal AGI for all couples.

Table 1 contrasts the values of transferred CVCs and nonrefundable CVCs for several hypothetical married couples at different income levels. In these stylized examples, a couple earning $20,000 per year would have no income tax liability, so their nonrefundable CVC would be $0, whereas a transferred CVC would be $7,500 if both the critical minerals and battery components requirements are met. (If only one requirement is met, the transferred credit would be worth $3,750.) A married couple earning $95,558 would have income tax liabilities of $7,500, so couples earning between $95,558 and $300,000 would receive the same amounts from transferred and nonrefundable credits. Couples with incomes above $300,000 would not receive the credit, as they would exceed the MAGI threshold.

Table 2 uses similar stylized examples to contrast transferred UCVCs and nonrefundable UCVCs for married couples with different incomes. Since the UCVC is proportional to the cost of the purchased vehicle, different credit amounts are shown for both high- and low-cost vehicles. For a couple earning $20,000 and purchasing a qualifying used vehicle for $13,333 or more, a transferred credit is worth $4,000, whereas a nonrefundable credit is worth $0. For couples earning between $66,392 and $150,000, both nonrefundable credits and transferred credits have a maximum value of $4,000 (based on the price of the vehicle). Couples purchasing lower-priced vehicles receive smaller credits, and couples earning more than $150,000 cannot receive the UCVC.

Table 2. Used Clean Vehicle Credits for Married Couples

Nonrefundable vs. transferred UCVC amounts for stylized examples of married couples, by AGI, tax year 2024

Adjusted Gross Income (AGI)	Nonrefundable Credit Amount	Transferred Credit Amount
Used Vehicle Costing Between $13,333 and $25,000		
$20,000	$0	$4,000
$60,000	$3,233	$4,000
$125,000	$4,000	$4,000
$200,000	$0	$0
Used Vehicle Costing $8,000		
$20,000	$0	$2,400
$60,000	$2,400	$2,400
$125,000	$2,400	$2,400
$200,000	$0	$0

Source: CRS calculations.

Notes: All couples are assumed to claim the standard deduction and no other nonrefundable credits. The couple earning $200,000 is assumed to have earned more than $150,000 in 2023. MAGI is assumed to equal AGI for all couples.

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