

Financial Incentives for Buying a Hybrid Vehicle

Tax Deductions

Gas-electric hybrid vehicles are considered clean fuel vehicles by the federal government, making the *original* owners of these cars eligible for a one-time federal income tax deduction. Under the Working Families Tax Relief Act of 2004, **the deduction amount is limited to \$2,000 for cars first put into use in 2004 and 2005. The deduction will be limited to \$500 for vehicles placed in service in 2006, and no deduction will be allowed after that year.**

These models currently qualify for the deduction:

- ▶ Toyota Prius — Model Years 2001 through 2005
- ▶ Honda Insight — Model Years 2000 through 2005
- ▶ Honda Civic Hybrid — Model Years 2003 and 2005
- ▶ Honda Accord Hybrid — Model Year 2005
- ▶ Ford Escape Hybrid — Model Year 2005

About the Deduction

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by a clean-burning fuel. Hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines. The deduction amount was set after the automotive corporations documented for the IRS the incremental costs of buying their hybrid vehicles.

Claiming the Tax Deduction

The deduction must be taken for the year in which the vehicle was first used (regardless of model year). For a car first put into use earlier than 2004 but for which the deduction was not yet taken, a taxpayer may claim the deduction on the amended tax return, using Form 1040X, Amended U.S. Individual Income Tax Return. Taxpayers may amend a previously-filed tax return to claim a refund within three years after the date they filed the original return or within two years after the date the tax was paid, whichever is later.

This benefit is taken as an adjustment to income. You do not have to itemize deductions on your tax return to claim it, but you do have to use Form 1040. Include your deduction on the dotted line to the left of line 35 of the 2004 Form 1040, and identify as “Clean-Fuel.”

Other Deductions/Credits for Clean-Fuel Vehicles

The IRS also allows deductions for clean-fuel vehicles other than hybrid vehicles. You are allowed a *limited deduction* for the cost of a clean-fuel vehicle you place in service during the tax year. You are also allowed a *tax credit* of 10% of the cost of any qualified electric vehicle you place in service during the tax year.

Qualified clean-burning fuels:

- ▶ Natural gas.
- ▶ Liquefied natural gas.
- ▶ Liquefied petroleum gas.
- ▶ Hydrogen.
- ▶ Electricity.
- ▶ Any other fuel that is at least 85% alcohol (any kind) or ether.

Disclaimer:

The information here was obtained from www.irs.gov. This document should not be considered an official or legally binding document. Please consult with your tax advisor before using this information in your federal tax return.

State-Funded Rebates/Grants

See reverse for information on rebates and grants available to Pennsylvania residents who purchase a hybrid vehicle.

State-Funded Rebates/Grants

Hybrid Electric Vehicle/Alternative Fuel Incentive Rebate Program

The Department of Environmental Protection offers an opportunity to Pennsylvania residents to apply for a rebate to assist with the incremental cost for the purchase of a new hybrid, bi-fuel, dual-fuel, or dedicated alternative fuel vehicle. **The rebate amount for calendar year 2005 is \$500.** The rebate will be offered throughout the calendar year as long as funds are available. Rebates will be offered on a “first come, first served” basis. Rebate applications shall be submitted no later than six months after the purchase.

Alternative Fuels Incentive Grant (AFIG) Program

The Alternative Fuels Incentive Grant (AFIG) Program provides financial assistance and information on alternative fuels and vehicles. AFIG was created in 1992 by Act 166. Its purpose is to: reduce PA's dependence on imported oil, improve PA's environmental quality, and foster economic development by encouraging the transfer and commercialization of innovative energy technologies and the use of fuels indigenous to the Commonwealth.

Who can apply? Eligible applicants for incentive grants are schools and vocational school districts, municipal authorities, counties, cities, boroughs, incorporated towns, townships, county institution districts, corporations, partnerships and nonprofit entities incorporated or registered in the Commonwealth, and Commonwealth residents.

What fuel sources are eligible? Eligible alternative motor fuels and fuel systems are compressed natural gas (CNG), liquefied natural gas (LNG), liquid propane gas (LPG), ethanol (E85), methanol (M85), hydrogen, hythane, electricity, coal-derived liquid fuels, fuels derived from biological materials and fuels determined by the Secretary of the U.S. Department of Energy as meeting the requirements of Section 301 of the Energy Policy Act of 1992 (42 U.S.C.A. §13211(2)).

The following projects are eligible for funding:

- ▶ Purchasing alternative fuel vehicles, including hybrid electric vehicles.
- ▶ Converting or repowering existing vehicles to operate on an alternative fuel.
- ▶ Purchasing and installing alternative fuel refueling facilities.
- ▶ Purchasing and installing recharging facilities.
- ▶ Developing and evaluating innovative alternative fuel vehicles and developing refueling or recharging facilities.

For more information on both rebates and grants, go to

www.dep.state.pa.us and type in keyword: alternative fuels

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Group Against Smog & Pollution
Wightman School Community Building
5604 Solway Street, #204
Pittsburgh, PA 15217

(412) 325-7382
gasp@gasp-pgh.org
<http://www.gasp-pgh.org>