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Clean Vehicle Tax Credit Transfers to Car Dealers

In May 2024, the Internal Revenue Service (IRS) issued final regulations for transfers of clean vehicle tax credits from consumers to car dealers. The 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). The regulations detail how transferred credits—unlike credits claimed when tax returns are filed—may exceed total income tax liabilities.

The Clean Vehicle Credit (CVC)

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

Eligible vehicles must be acquired before 2033 and have undergone final assembly in North America. Individuals and businesses may claim the credit for only 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 (1) must meet or exceed a certain threshold percentage of critical minerals that were extracted or processed in the United States or in a country with which the United States has a free trade agreement, or (2) must have been recycled in North America. The threshold starts at 40% in 2023 and rises gradually to 80% in 2027 and subsequent years. To meet the *battery components requirement*, a certain minimum 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 an FEOC. According to final regulations from the IRS, FEOCs include companies operating in or significantly influenced by the governments of China, Russia, North Korea, or Iran.

To receive the credit, taxpayers must have modified adjusted gross incomes (MAGIs) for either the current or previous year no greater than certain specified amounts: $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 (UCVC)

The UCVC, 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 may be claimed only 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. Taxpayers must purchase vehicles for personal use, not for resale, and cannot have claimed another UCVC in the previous three years. The taxpayers' MAGIs for either the current or previous year must be no greater than certain specified amounts: $150,000 for married couples, $112,500 for heads of household, and $75,000 for single filers and others. When claimed on tax returns, credit amounts in excess of income tax liabilities cannot be received as refunds.

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

Since January 1, 2024, taxpayers have been able to 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, which 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. A 2022 survey found 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 MAGI 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 credit amount under section 30D that the electing taxpayer elects to transfer ... may exceed the electing taxpayer's regular tax liability ... for the taxable year in which the sale occurs." This rule applies to the UCVC as well.

Because of the progressivity 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 promulgated by the IRS 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 also depends 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 (CVCs) for Married Couples

Nonrefundable vs. transferred CVCs for example married couples, by adjusted gross income (AGI), tax year 2024

AGI	Nonrefundable Credit	Transferred Credit
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: Credit amounts are based on the assumptions that (1) couples claim the standard deduction and no other nonrefundable tax credits, (2) couples earning $350,000 in 2024 earned more than $300,000 in 2023, and (3) couples' modified AGIs equal their AGIs.

Table 1 contrasts the values of transferred CVCs and nonrefundable CVCs for hypothetical married couples at different income levels. In these 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 the vehicle meets only one requirement, 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 making above $300,000 would not receive the credit, as their incomes exceed the MAGI threshold.

Table 2 uses similar 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 to $25,000, 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 potential 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 (UCVCs) for Married Couples

Nonrefundable vs. transferred UCVCs for example married couples, by adjusted gross income (AGI), tax year 2024

AGI	Nonrefundable Credit	Transferred Credit
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: Credit amounts are based on the assumptions that (1) couples claim the standard deduction and no other nonrefundable credits, (2) couples earning $200,000 in 2024 earned more than $150,000 in 2023, and (3) couples' modified AGIs equal their AGIs.

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