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Clean Vehicle Tax Credits

Prior to the enactment of the FY2025 reconciliation law (P.L. 119-21), the federal government offered three tax credits to incentivize the purchase of clean vehicles (electric vehicles, plug-in hybrid vehicles, and fuel cell vehicles). All three credits were created or substantially modified by P.L. 117-169, the Inflation Reduction Act of 2022 (IRA). This In Focus summarizes each clean vehicle credit, provides a brief discussion of relevant economic policy considerations, and discusses the repeal of the credits in the FY2025 reconciliation law.

Clean Vehicle Credit (IRC §30D)

Taxpayers purchasing a qualifying new clean vehicle could claim a nonrefundable tax credit of up to \$7,500 for vehicles acquired before October 2025. The maximum potential credit (\$7,500) was the sum of two amounts: the critical mineral amount (\$3,750) and the battery component amount (\$3,750); the credit went into effect for vehicles acquired on or after April 18, 2023. (Fuel cell vehicles without batteries that meet other requirements were eligible for the full \$7,500 credit, though fuel cell vehicles with batteries were subject to the rules below.)

- For taxpayers to claim the critical mineral portion of the credit, at least a certain percentage of a car battery's critical minerals must have been extracted or processed in the United States or in a country with which the United States has a free trade agreement, or have been recycled in North America. The minimum percentage was 40% in 2023, 50% in 2024, and 60% in 2025. For vehicles acquired after 2024, no applicable critical minerals in the vehicle's battery could come from a *foreign entity of concern* (FEOC). An FEOC is defined as a nonstate actor that potentially poses an economic or security threat to the United States.
- For taxpayers to claim the battery component portion of the credit, at least a certain percentage of an electric vehicle battery's component parts must have been manufactured or assembled in North America. The minimum percentage was 50% in 2023 and 60% in 2024 and 2025. Vehicles acquired after 2023 could not use battery components manufactured or assembled by an FEOC.

In addition to the critical minerals and battery component requirements, qualifying clean vehicles had to meet other criteria. These additional criteria included a manufacturer's suggested retail price (MSRP) limit (\$80,000 for vans, SUVs, and pickup trucks; \$55,000 for other vehicles); a required gross vehicle weight rating (GVWR) of less than 14,000 pounds; and a battery capacity of at least 7 kilowatt-hours. The final assembly of all qualified vehicles must have occurred in North America.

To claim the credit, taxpayers must have had modified adjusted gross incomes (MAGIs), for either the current or previous year, at or below certain thresholds: \$300,000 for married couples, \$150,000 for single filers, and \$225,000 for heads of household. The clean vehicle credit was generally *nonrefundable*, meaning taxpayers could not claim credit amounts in excess of their tax liabilities.

Starting in 2024, taxpayers were allowed to transfer their credits to vehicle dealers. Dealers who received transferred credits were required to compensate buyers with either a cash payment or a price reduction equal to the value of the credit. Transferred credits could exceed taxpayers' income tax liabilities, effectively making transferred credits fully refundable. Taxpayers who transferred a credit but later exceeded their MAGI limit were required to pay back the credit (to the IRS) when filing their taxes.

Credit for Previously Owned Clean Vehicles (IRC §25E)

Taxpayers purchasing a qualifying previously owned clean vehicle could claim a nonrefundable tax credit equal to 30% of the vehicle's sales price, up to a maximum credit of \$4,000. This credit was commonly referred to as the "used clean vehicle credit." Taxpayers could claim the credit only for vehicles acquired before October 2025.

The credit could be claimed once per vehicle, and the vehicle needed to satisfy other criteria. The vehicle must have been purchased from a licensed dealer for \$25,000 or less, had a GVWR of less than 14,000 pounds, and had a battery capacity of at least 7 kilowatt-hours. In addition, the vehicle's model year must have been at least two years before the year of purchase, and the dealer must have produced a report of the transaction for both the buyer and the IRS.

Taxpayers with MAGIs at or below \$150,000 for married couples, \$75,000 for single filers, and \$112,500 for heads of household in either the current or previous year qualified for this tax credit. Taxpayers could claim the credit at most once every three years. Rules for credit transfers under the used clean vehicle credit were similar to those under the clean vehicle credit.

Credit for Qualified Commercial Clean Vehicles (IRC §45W)

By purchasing a qualified clean vehicle, businesses and tax-exempt organizations could qualify for a tax credit of up to \$40,000. For plug-in hybrid vehicles, the credit was equal to the lesser of the incremental cost of the vehicle (the difference between its price and the price of a gas- or diesel-powered vehicle of similar size and use) or 15% of the vehicle's cost basis. For electric vehicles and fuel cell vehicles, the credit equaled the lesser of the incremental cost of the vehicle or 30% of its cost basis. The credit could

not exceed \$7,500 for vehicles with a GVWR of less than 14,000 pounds.

The credit for qualified commercial clean vehicles could be claimed once per vehicle and must have satisfied other criteria. The vehicle must have been used for business purposes, been used primarily in the United States, had a battery capacity of at least 7 kilowatt hours if the GVWR was less than 14,000 pounds (or 15 kilowatt hours otherwise), and been produced by a qualified manufacturer. In addition, the vehicle must have been either mobile machinery as defined in IRC §4053(8) or a motor vehicle for use on public roads for purposes of Title II of the Clean Air Act. Mobile machinery is defined to include vehicles such as electric tractors while excluding vehicles such as electric golf carts.

The commercial clean vehicle credit was nonrefundable, meaning that businesses could not claim tax credits in excess of their income tax liabilities. Any unused credits could be carried back 1 year or carried forward up to 20 years to offset other years' tax liabilities. Tax-exempt organizations were eligible to receive the credit as a direct cash payment instead of as a nonrefundable tax credit.

Businesses could claim the commercial clean vehicle credit for vehicles leased to customers. In some cases, dealers reportedly claimed credits for leased passenger vehicles, then used these credits to lower customers' down payments by \$7,500. This *tax credit exception* allowed customers to save up to \$7,500 even if the vehicle did not match the MSRP restrictions or domestic content rules from the Clean Vehicle Credit; taxpayers who were above the Clean Vehicle Credit income limits also benefited from the exception. This issue is discussed in greater detail in CRS In Focus IF12603, *The Tax Credit Exception for Leased Electric Vehicles*, by Nicholas E. Buffie.

Who Claimed Clean Vehicle Credits?

The pre-IRA tax credit for plug-in electric vehicles (the precursor to the Clean Vehicle Credit) was claimed disproportionately by high-income taxpayers. In 2022, 50% of the credit's benefits went to taxpayers in the top 8% of the taxpayer income distribution (those with adjusted gross incomes, or AGIs, of \$200,000 or more), and 93% of its benefits went to taxpayers in the top 33% (those with AGIs of \$75,000 or more).

The previous tax credit's nonrefundable nature likely contributed to the relatively smaller benefits accruing to low-income taxpayers. For credits claimed in 2022, credit recipients with AGIs below \$50,000 received roughly \$2,025, compared to \$7,443 for taxpayers with AGIs between \$100,000 and \$500,000. These amounts may have changed as more taxpayers transferred fully refundable credits to car dealers. Initial Treasury data for January 1 through February 6, 2024, indicate that roughly 19,500 taxpayers transferred the clean vehicle credit or the used clean vehicle credit to dealers. Over the same period, 5,500 vehicle sales were reported for purposes of traditional nonrefundable credits.

Clean Vehicle Credit Repeal in the FY2025 Reconciliation Law

The FY2025 reconciliation law, commonly known as the "One Big Beautiful Bill Act," repealed all three credits for vehicles acquired after September 30, 2025. In August 2025, the IRS announced that it would interpret the term "acquired" to mean "paid for," such that if an individual purchased a vehicle before October 1, then took possession of the vehicle at a later date, that individual was eligible for a tax credit. Under prior law, taxpayers could claim credits for vehicles acquired before 2033.

The Joint Committee on Taxation projects that the repeal of these credits will increase federal revenues by \$190 billion over the 10-year budget window (FY2025-FY2034). These cost estimates and other aspects of the credits' repeal are discussed in greater detail in CRS Insight IN12625, *IRA Tax Credit Repeal in the FY2025 Reconciliation Law: Part 2*, by Nicholas E. Buffie.

Complementary Tax Provisions

Federal tax policy also contains a provision that indirectly promotes the adoption of clean vehicles. The Alternative Fuel Vehicle Refueling Property Credit (AFVRPC; IRC §30C) can be claimed by individuals and businesses that install property used to store or dispense clean-burning fuel or to recharge electric motor vehicles in qualifying census tracts. Qualifying census tracts are those designated as low-income for the New Markets Tax Credit (generally having a poverty rate greater than 20% or median family income less than 80% of the statewide or metropolitan area median family income) or those located in nonurban areas. The AFVRPC applies to property placed in service before July 2026.

For individuals, the AFVRPC is equal to 30% of the cost of the property with a maximum credit of \$1,000. For businesses, the credit is equal to 30% of the cost of the property if prevailing wage and qualified apprenticeship requirements are met (or 6% otherwise), with a maximum credit of \$100,000 per unit of property.

Federal tax incentives support the clean vehicle market in other ways as well. For example, the clean hydrogen production credit (IRC §45V) subsidizes the production of hydrogen fuel, which may be used in fuel cell vehicles, and the advanced manufacturing production credit (IRC §45X) subsidizes production of battery components, which may be used in clean vehicles. In addition, an array of federal tax credits—most notably the Clean Electricity Investment Tax Credit (IRC §48E) and the Clean Electricity Production Tax Credit (IRC §45Y)—subsidize electricity generated by "clean energy" sources such as nuclear and renewables. For information on other energy tax incentives, see CRS Report R46865, *Energy Tax Provisions: Overview and Budgetary Cost*, by Nicholas E. Buffie and Donald J. Marples.

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