



Clean Vehicle Tax Credits in the Inflation Reduction Act of 2022

August 24, 2022

P.L. 117-169, commonly referred to as the Inflation Reduction Act of 2022 (IRA 2022), as signed into law on August 16, 2022, modified tax credits for electric vehicles (EVs) and fuel cell vehicles. The law also enacted new tax credits for used and commercial clean vehicles. This Insight provides information on the tax credits for clean vehicles, highlighting the tax credits that were available before the IRA 2022 was signed into law, and qualifying criteria for vehicle tax credits during the remainder of 2022, in 2023, and beyond. For background on the plug-in EV credit before August 16, 2022, see CRS In Focus IF11017, *The Plug-In Electric Vehicle Tax Credit*, by Molly F. Sherlock.

Tax Credits for Clean Vehicles Purchased in 2022

Multiple factors determine whether an EV purchased in 2022 qualifies for federal tax credits. Many EVs purchased before August 16, 2022, qualify for a tax credit of up to \$7,500 (with [smaller amounts available for certain makes and models](#)). Vehicles manufactured by Tesla or General Motors purchased in 2022 are not eligible for tax credits, as Tesla and GM have exceeded the 200,000 vehicle threshold that limits the number of tax credits that can be claimed for vehicles made by a manufacturer.

For vehicles purchased after August 16, 2022, only vehicles for which final assembly occurred in North America qualify. The [U.S. Department of Energy has released a list](#) of model year 2022 and 2023 vehicles with final assembly in North America.

EV purchasers who ordered a vehicle before August 16, 2022, and take delivery of their vehicle at a later date may be able to claim tax credits for vehicles not assembled in North America if they had a “written binding contract” to purchase the vehicle. In answering the question “what is a written binding contract,” the [IRS noted](#) that a nonrefundable deposit or down payment of 5% of the purchase price can be an indication of this type of contract.

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	Pre-IRA 2022		Post-IRA 2022		
	Plug-in EV Credit	Fuel Cell Vehicle Credit	Clean Vehicles Credit	Credit for Previously-Owned Clean Vehicles	Credit for Commercial Clean Vehicles
Maximum Amount	\$7,500 base amount of \$2,500 plus \$417 for each kWh of capacity above 5 kWh (up to \$5,000)	\$8,000 or \$40,000 base amount of \$4,000 plus up to \$4,000 additional based on fuel economy; credit of up to \$40,000 for heavy vehicles	\$7,500 \$3,750 for vehicles meeting the critical minerals requirement; \$3,750 for vehicles meeting the battery components requirement	\$4,000 limited to 30% of the sales price	\$7,500 or \$40,000 credit is limited to the lesser of 15% of the vehicle's cost (30% for vehicles not gasoline or diesel powered) or the incremental cost of the vehicle, as compared to vehicles powered with a gasoline or diesel ICE; credit of up to \$40,000 for heavy vehicles
Qualifying Vehicles	battery with 4 kWh of capacity with external charging	vehicles propelled by fuel cells	battery with 7 kWh of capacity with external charging; vehicles propelled by fuel cells; after 2024, no credits allowed for batteries containing critical minerals sourced from a foreign entity of concern; after 2023, no credit for batteries with components sourced from a foreign entity of concern	previously-owned clean vehicles having a model year that is two years earlier than the calendar year; credit can only be claimed on the first transfer of the vehicle; vehicle must be purchased from a dealer	clean vehicles and mobile machinery; larger EVs required to have a battery with 15 kWh of capacity; vehicle must be subject to a depreciation allowance (i.e., for business use), except in the case of vehicles used by tax-exempt entities
Manufacturing Location Requirements	n.a.	n.a.	final assembly must occur within North America (effective 8/16/2022)	n.a.	n.a.
Manufacturer Limitations	phaseout after 200,000 plug-in EVs manufactured	n.a.	n.a.	n.a.	n.a.
Eligible Taxpayers	individuals & businesses; for tax-exempt entities seller can claim credit		individuals & businesses	individuals (limited to one credit every 3 years)	businesses & tax-exempt entities; tax-exempt entities could receive credit as direct pay
Price Limits	n.a.	n.a.	no credit allowed for vans, SUVs, pickup trucks with MSRP > \$80,000; other vehicles with an MSRP > \$55,000	no credit allowed if the sales price is \$25,000 or more	n.a.
Income Limits	n.a.	n.a.	no credit if MAGI > \$300,000 (married filing jointly); MAGI > \$225,000 (head of household); MAGI > \$150,000 (single); income thresholds apply to the lesser of current year or prior year MAGI	no credit if MAGI > \$150,000 (married filing jointly); MAGI > \$112,500 (head of household); MAGI > \$75,000 (single); income thresholds apply to the lesser of current year or prior year MAGI	n.a.
VIN Reporting Requirements	n.a.	n.a.	seller must report VIN to the Treasury; taxpayers must report VIN on tax return		taxpayers must report VIN on tax return
Transferability	only for tax-exempt entities	only for tax-exempt entities	taxpayers can elect to transfer credit to dealer (effective after 12/31/2023)	taxpayers can elect to transfer credit to dealer (effective after 12/31/2023)	n.a.
Expiration	none	12/31/2021	12/31/2032	12/31/2032	12/31/2032

EV = electric vehicle; kWh = kilowatt hour; MAGI = modified adjusted gross income; MSRP = manufacturer's suggested retail price; SUV = sport utility vehicle; ICE = internal combustion engine; VIN= vehicle identification number; n.a. = not applicable

Source: CRS analysis of P.L. 117-169 (commonly referred to as the Inflation Reduction Act of 2022).

Tax Credits for Clean Vehicles Purchased After 2022

Most of the changes to the clean vehicle tax credit are effective starting in 2023. (The major exception is the final assembly in North America requirement, noted above.) Beginning in 2023, EVs qualify only if

the vehicle's battery meets certain conditions. The maximum potential credit is the sum of two amounts: the critical mineral amount and the battery component amount.

- **Critical Minerals (\$3,750):** Starting in 2023 (and after the Treasury issues guidance on this requirement), to qualify for this portion of the credit, at least 40% of the value of the battery's applicable 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 recycled in North America. The 40% amount increases to 50% in 2024, 60% in 2025, 70% in 2026, and 80% in 2027 and thereafter.
- **Battery Components (\$3,750):** Starting in 2023 (and after the Treasury issues guidance on this requirement), to qualify for this portion of the credit, at least 50% of the value of the battery's components must have been manufactured or assembled in North America. The 50% amount increases to 60% in 2024 and 2025, 70% in 2026, 80% in 2027, 90% in 2028, and 100% in 2029 and thereafter.

Additional restrictions apply to vehicle batteries starting in 2024 and 2025. Specifically, starting in 2024, an EV cannot qualify for the clean vehicle tax credit if any of the vehicle's battery components were manufactured or assembled by a [foreign entity of concern](#). Starting in 2025, an EV cannot qualify for the clean vehicle credit if the vehicle's battery contains critical minerals that were extracted, processed, or recycled by a foreign entity of concern.

Numerous [media outlets](#) citing [industry trade organizations](#) have reported that a limited number of EVs currently on the market will qualify for the clean vehicle tax credit in 2023. Over time, as the battery critical minerals and components requirements tighten, there are claims that no vehicles would qualify. That could change, however, if [supply chains were to shift](#) before the future changes become effective.

Other changes to the credit also take effect in 2023. These include the credit's new income limits, limits based on the vehicle's price, and new reporting requirements (including both taxpayer and seller vehicle identification number [VIN] reporting). Starting in 2024, taxpayers will be able to elect to transfer credits to dealers, effectively allowing the credit to be a point of sale rebate.

The IRA 2022 also enacted two new tax credits for clean vehicles. The first is the new IRC Section 25E credit for previously owned clean vehicles. This tax credit is 30% of a used EV's sales price, up to \$4,000. It can be claimed by taxpayers with income of less than \$150,000 (for joint filers; \$75,000 for single filers) for used EVs with a purchase price of \$25,000 or less. The second is the new IRC Section 45W tax credit for commercial clean vehicles. This tax credit is 15% of a qualifying vehicle's cost (30% if the vehicle does not have a gas- or diesel-powered internal combustion engine), limited to the incremental cost of the vehicle relative to a solely gas or diesel powered vehicle. The credit for light-duty vehicles is limited to \$7,500, while heavy-duty vehicles can qualify for tax credits of up to \$40,000. This credit could help support deployment of electric or hydrogen trucks and busses.

Additional Resources

- [Treasury FAQ](#) on the Initial Changes to the Vehicle Tax Credits
 - [Department of Energy list](#) of EVs assembled in North America
 - [IRS information for consumers](#) about the Section 30D tax credit
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