

# Alternative Fuel Incentives Overview & Status Update

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# Outline

- Provide an overview of federal incentives available for Natural Gas Vehicle users
  - Vehicle Credits
  - Fueling Infrastructure Credits
  - Fuel Credits – (*primarily interested in this credit today*)
- Emphasize how these incentives can help public and tax exempt entities

# EPA Act 2005 (Pub. L. No 109-58) - Alternative Motor Vehicle Tax Credits

- EPA Act Sec. 1341 includes tax credits for four new classes of motor vehicles:
  - Fuel Cell Vehicles
  - Hybrid Electric Vehicles
  - Lean Burn Engine Vehicles
  - Dedicated Alternative Fuel Vehicles\*
- Applies to vehicles placed in service after Jan. 1, 2006

\* Focusing in this presentation on NGVs

# Alternative Motor Vehicle Tax Credits

- Income tax credit goes to the purchaser of the vehicle, including:
  - Businesses
  - Individuals
- If vehicle leased, the credit goes to the lessor, not the person or business leasing the vehicle
- BUT, the seller may take credit if vehicle sold to tax exempt entity:
  - Must disclose the full tentative value of the credit to customer

# Alternative Motor Vehicle Tax Credit Values

<u>EPAct 2005 Qualifying Vehicles</u>	<u>Minimum</u>	<u>Maximum</u>
Fuel Cell Vehicles	\$8,000	\$40,000
Alternative Fuel Vehicles	\$2,500	\$32,000
Lean Burn Engine Vehicles	\$400	\$3,400
Hybrid Electric Vehicles	\$400	\$3,400
Heavy Duty Hybrid	\$1,500	\$12,000

# Alternative Motor Vehicle Tax Credit Expiration Dates

<u>EPAct 2005 Qualifying Vehicles</u>	<u>Expiration Date</u>
Heavy Duty Hybrid	12/31/2009
Alternative Fuel Vehicles	12/31/2010
Lean Burn Engine Vehicles*	12/31/2010
Hybrid Electric Vehicles*	12/31/2010
Fuel Cell Vehicles	12/31/2014

Subject to earlier phase-out if sales exceed certain threshold.

# AFV Tax Credits

- Alternative fuels that qualify:
  - CNG and LNG
  - LPG
  - Hydrogen (liquefied)
  - M-85 (methanol) or higher
- Alternative fuel vehicle credit limited to dedicated vehicles and some mix-fuel vehicles
- Credits limited to “motor vehicles” defined as 4 wheel vehicles manufactured primarily for on-road use

# AFV Tax Credits – IRS Guidance

- IRS issued guidance June 2006 - Notice 2006-54
- Clarifies that aftermarket conversions and repowers qualify
- IRS will certify tax credit value of vehicles/engines on case-by-case basis
- Numerous manufacturers have now had tax credit values of their vehicles certified by the IRS
- IRS publication of tax credit values:
  - <http://www.irs.gov/newsroom/article/0,,id=161076,00.html> (LDV values)
  - <http://www.irs.gov/businesses/article/0,,id=175456,00.html> (HD and aftermarket conversion values)

# Fueling Infrastructure Credit

- EPA Act § 1342 includes an income tax credit for alternative fuel refueling infrastructure
- Credit goes to the business acquiring alternative fueling infrastructure BUT seller may claim credit if station installed for tax exempt entity
- Seller of fueling equipment must disclose value of tax credit
- Includes equipment used to dispense:
  - CNG, LNG, LPG, hydrogen, E85, biodiesel mixtures of 20% or more
- Credit values:
  - \$30,000 or 30% of cost whichever is less (business property)
  - \$1,000 or 30% of cost whichever is less (personal residence property)

# Tax Credits/Incentive for Sale or Use of Alternative Fuel - Background

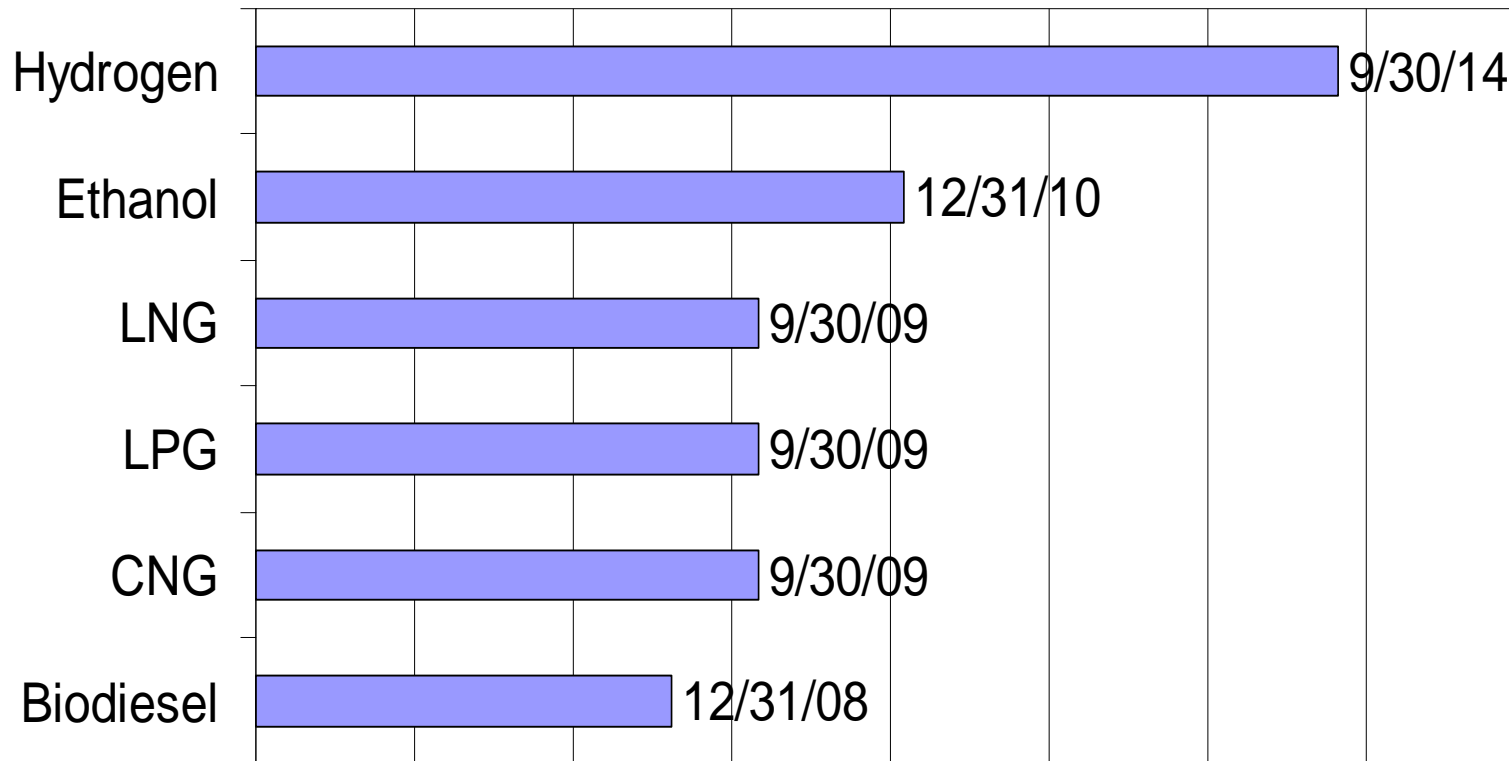
- Jobs Creation Act of 2004 (Pub. L. No. 108-357) modified tax credit for ethanol and included biodiesel credit
- The credit is known as the Volumetric Ethanol Excise Tax Credit (VEETC)
  - Created an *excise tax credit/income tax credit* for ethanol and biodiesel blenders
  - Adjusted the excise tax on ethanol and biodiesel to reflect gasoline and diesel rates
  - Provides a *payment* to users if blender or seller not otherwise taking the credit

# Tax Credit/Incentive for Alternative Fuels - Background

- SAFETEA-LU (Pub. L. No. 109-59) extended the VEETC tax credit to include:
  - CNG, LNG, LPG, Hydrogen, CTL, liquid hydrocarbons derived from biomass
  - Effective October 1, 2006
- Ways to benefit from tax credit:
  - Excise tax offset
  - Income tax credit
  - Payments for tax exempt entities

# Alternative Fuel Credits

## Expiration Date



# Alternative Fuel Credits – Some General Things to Know

- Ethanol and biodiesel credits generally taken at the blender level upstream of the customer and point of sale
- CNG and LNG credits more likely to be taken by the user unless fuel sold at retail transaction
- In order to qualify for the credit/incentive generally must register as an Alternative Fueller with the IRS
- The credits must first be used to offset any excise taxes that are owed

# Uses That Qualify for Tax Credit

- In order to qualify for the tax credit/incentive for alternative fuels, the fuel must be used in a “motor vehicle”
- The IRS regulations define “motor vehicle” in section 48.4041-8(c)
- The definition includes all types of vehicles propelled by motor designed for carrying or towing loads from one place to another
- Regardless of whether vehicle is manufactured for or registered for highway use; e.g., use of fuel in forklifts qualifies for credits

# Alternative Fuel Credits – Motor Vehicle Defined

- The term does NOT include farm tractors, trench diggers, power shovels, bulldozers, road graders or rollers, and similar equipment which does not carry or tow a load; nor does it include any vehicle which moves exclusively on rails

# How Tax Exempt Entities Benefit from Alternative Fuel Tax Credits

- Tax exempt entities qualify for a payment, not a tax credit, under VEETC, in some cases if:
  - They produce and use fuel for own purposes
  - They produce fuel and sell to others
  - They purchase bulk fuel and dispense fuel using their own refueling equipment
  - If you own your own station and purchase natural gas from local utility the credit is likely yours
  - If you pay someone else to maintain your station and also contract with that entity to purchase natural gas for you, the credit may or may not be yours – IRS looks at ownership of the natural gas immediately prior to fueling to determine who claims the credit

# IRS – Alternative Fuel Credit

- Guidance released Sept. 2006 – Notice 2006-92
- Clarifies who takes the credit
- Unit of measurements to be used:
  - 121 cubic feet = GGE for CNG tax credit
  - 126.67 cubic feet = GGE for CNG excise tax
  - Other alternative fuel rates based on liquid gallon, e.g., LNG
- Clarifies ability of state and local government and certain non-profits to take credit – receive payment
- Identifies appropriate forms to file
- Clarifies responsibility for excise tax and rates to be applied

# Alternative Fuel Credit

- To take credit must register with IRS
  - Form 637, “Application for Registration”
- Must first use credit against excise tax liability
  - Form 720, “Quarterly Excise Tax Return”
- Excess credit taken *annually* as income tax credit
  - Form 4136, “Credit for Fed. Tax Paid on Fuels”
  - Offsets tax liability and is refundable
  - Alternatively, taxpayers can offset Estimated Corp. Tax during year
- Tax exempt entities file Form 8849, schedule 6 to receive payment
- The Tax Technical Corrections Act of 2007 ((HR 4839) (Pub. L. No. 110-172) amends tax payment provisions so that corporations also may claim payments during the year

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