



LEGAL ALERT

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IRS to Make Direct Payments to Local Governments, School Districts, and Tax-Exempt Organizations for New Clean Motor Vehicles and Motorized Equipment

By: Jean S. Everett

The monetization of energy tax credits under the Inflation Reduction Act (IRA) offers a potential source of revenue for local governments, school districts, 501(c)(3) organizations and certain other federally tax-exempt organizations that are buying new qualified commercial clean vehicles and motorized equipment.

What is the credit for qualified commercial clean vehicles?

Although local governments, school districts, 501(c)(3) organizations and certain other federally tax-exempt organizations generally do not receive tax credits from the federal government, the IRA has made certain energy credits available for direct payment to these entities. The purchase of new clean motor vehicles or motorized equipment entitles local governments, school districts, 501(c)(3) organizations and certain other federally tax-exempt organizations to direct payment from the Internal Revenue Service.

Who is eligible?

- Counties, cities, towns, villages, improvement districts
- School districts
- Agencies and instrumentalities of state or local government such as industrial development agencies, certain public universities, and public hospitals
- Section 501(c)(3) organizations
- All other organizations exempt under Section 501(a) of the Internal Revenue Code

How much is the credit?

The credit equals the lesser of:

- 15% of the entity's basis in the vehicle (30% if the vehicle is not powered by gas or diesel); or
- The incremental cost of the vehicle

The maximum credit is \$7,500 for qualified vehicles with gross vehicle weight ratings (GVWRs) of under 14,000 pounds and \$40,000 for all other vehicles.

Which vehicles are eligible?

To qualify, a vehicle must not be subject to a lease and must:

- Be made by a "qualified manufacturer "as defined in Section 30D(d)(1)(C) of the Internal Revenue Code.
- Be for use in the entity's operations, not for resale.
- Be for use primarily in the United States.
- Not have been allowed a credit under certain other sections of the Internal Revenue Code.
- Either be:
 - Treated as a motor vehicle under the Internal revenue Code and manufactured primarily for use on public roads (not including a vehicle operated exclusively on a rail or rails); or
 - Certain mobile machinery (including vehicles that are not designed to perform a function of transporting a load over a public highway)
- Either be:
 - A plug-in electric vehicle that draws significant propulsion from an electric motor with a battery capacity of at least:
 - 7 kilowatt hours if the gross vehicle weight rating (GVWR) is under 14,000 pounds
 - 15 kilowatt hours if the GVWR is 14,000 pounds or more; or
 - A fuel cell motor vehicle that satisfies certain requirements.

How to claim credit

The Internal Revenue Service is finalizing a form that will be used to claim the credit.

Please contact Jean Everett to discuss this credit and the other provisions of the IRA available to local governments and other federally tax-exempt organizations.



Jean S. Everett

Ph: 315.701.6362
jeverett@bhlawpllc.com
www.bhlawpllc.com



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