



## Summary of Treasury's Final Rule Implementing the 25E Used Clean Vehicle Tax Credit

**Agency:** Internal Revenue Service, Department of the Treasury

**Action:** Final Rule

**Publication Date:** May 6, 2024

**Effective Date:** July 5, 2024

**Federal Register Notice:** [Here](#)

### Key Links:

- [26 U.S. Code § 25E](#): Previously-owned clean vehicles
- IRS [FAQ Document](#) on Vehicle Tax Credits

### Introduction:

Section 25E of the Internal Revenue Code, as amended by the Inflation Reduction Act, provides a tax credit to buyers of used clean vehicles. The value of the credit is capped at either 30 percent of the sales price of the vehicle or \$4,000, whichever is lower, and buyers must have taxable incomes below \$75,000 for single filers and \$150,000 for joint filers. Additionally, the credit may only be claimed once for the first resale of a used clean vehicle, for a price of no more than \$25,000.

Given the tax credit requires less agency interpretation than other clean energy tax credits such as 30D or 45X, Treasury declined to release proposed rulemaking on the issue, and instead published a request for comments on 25E as well as 30D, a larger credit applying to new clean vehicles, in October of 2022. The request for comment solicited input on the definition of a qualified used vehicle, rules governing the transfer of the 25E credit, and provisions allowing only one credit to be claimed per vehicle.

### Summary:

The final rulemaking mostly adopts regulations as proposed, including the definition of a previously-owned clean vehicle, the establishment of transfer elections and an advanced payment program to dealers, and limitations on the income of eligible taxpayers. The tax credit is limited to sales from qualified dealers, who are able to take advantage of an advanced payment program. This will allow buyers to transfer the credit to dealers at the point of sale in return for direct cash payments or a reduction in sale price, limiting friction for individual taxpayers and increasing the credit's penetration.

## **Key Provisions:**

### *Advanced payment program*

- The eligible entity receiving a credit transfer is eligible for advance payments by the IRS before filing its federal income tax return, but may not claim the credit on its actual tax return. The regulations also lay out requirements necessary for registered dealers to become eligible entities.

### *First transfer rule*

- Qualified sales are restricted to those that are the first transfer of the previously-owned clean vehicle to a qualified buyer other than the original buyer (new vehicle purchase)

### *Income Limitations*

No 25E credit is allowed for a taxable year if the lesser of a) the modified adjusted gross income (AGI) of the previous taxable year or the current taxable year exceeds:

- \$150,000 for taxpayers filing jointly
- \$112,500 for heads of household
- \$75,000 for any other taxpayers.

### *Transfer of credits*

- Taxpayers may elect to transfer the credit to eligible entities as defined in 30D, and be compensated with a payment equal to the value of the credit in the form of cash, a reduction in sale price, or a partial down payment on the purchase of a previously-owned clean vehicle.
- Taxpayers who make credit transfer elections must file income tax returns and include the relevant election information on the tax return.

### *Vehicle identification number requirements*

- Taxpayers are required to include the vehicle identification number (VIN) of the previously-owned clean vehicle on their income tax returns

## **Definitions:**

### *Eligible entity*

The definition of eligible entity is the same as that provided in 30D(g)(2). Registered dealers qualify as an eligible entity if they:

1. Submit all required registration information and are in tax compliance,
2. Retain information regarding the transfer election for three calendar years after the vehicle is placed in service, and
3. Meet any other requirements set forth by the IRS

#### *Previously-Owned Clean Vehicle*

The final regulations clarify that vehicles that may qualify as previously-owned clean vehicles include battery electric vehicles, plug-in hybrid electric vehicles, fuel cell motor vehicles, and plug-in hybrid fuel cell motor vehicles. A previously-owned clean vehicle meets the following requirements:

1. The model year of the motor vehicle is at least 2 years earlier than the calendar year in which the taxpayer acquires such vehicle.
2. The original use of the motor vehicle commences with a person other than the taxpayer.
3. The motor vehicle is acquired by the taxpayer in a qualified sale.
4. The motor vehicle (i) meets the requirements of § 30D(d)(1)(C), (D), (E), (F), and (H) (except for § 30D(d)(1)(H)(iv)), or (ii) is a motor vehicle which (I) satisfies the requirements under § 30B(b)(3)(A) and (B), and (II) has a gross vehicle weight rating of less than 14,000 pounds.

#### *Qualified Buyer*

Section 25E(c)(3) defines “qualified buyer” as, with respect to a sale of a motor vehicle, a taxpayer who:

1. Is an individual.
2. Purchases such vehicle for use and not for resale,
3. With respect to whom no deduction is allowable with respect to another taxpayer under §151.
4. Has not been allowed a 25E credit for any sale for three years before the date of sale.

#### *Qualified Sale*

Section 25E(c)(2) defines a “qualified sale” as a sale of a motor vehicle:

1. By a dealer (as defined in § 30D(g)(8)),
2. For a sale price which does not exceed \$25,000, and
3. Which is the first transfer since the date of enactment of the IRA to a qualified buyer other than the person with whom the original use of such vehicle commenced.