



Summary of Treasury's Final Rule Implementing the 30D New Clean Vehicle Tax Credit

Agency: Internal Revenue Service, Department of the Treasury

Action: Final Rule

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Key Links:

- [Proposed Treasury rule on 30D implementation](#) (April 2023)
 - [ZETA comments to Treasury on proposed 30D implementation](#) (June 2023)
- [Proposed Treasury rule on 30D FEOC implementation](#) (December 2023)
 - [ZETA comments to Treasury on 30D FEOC implementation](#) (January 2024)
- [Proposed DOE rule on FEOC interpretation](#) (December 2023)
 - [ZETA comments to DOE on FEOC interpretation](#) (January 2024)
- [Final DOE rule on FEOC interpretation](#) (May 2024)

Introduction

The Inflation Reduction Act's Section 30D of the Internal Revenue Code provides a tax credit of up to \$7,500 for the purchase of a qualifying new clean vehicle. The tax credit is composed of two parts: 1) a \$3,750 credit if a certain percentage of critical minerals contained in the battery are extracted or processed in the U.S. or a Free Trade Agreement (FTA) country or recycling in North America, and 2) a \$3,750 credit if a certain percentage of the vehicle's battery components are manufactured or assembled in North America. Starting in 2024, qualifying clean vehicles may not contain any battery components manufactured by a Foreign Entity of Concern (FEOC), and starting in 2025, they may not contain any critical minerals extracted, processed, or recycled by an FEOC.

The Internal Revenue Service and the Treasury Department released a proposed rule on the implementation of 30D in April 2023 that included guidance on critical mineral and battery component requirements, followed in December 2023 by a proposed rule on the specific procedures for determining FEOC compliance. The Department of Energy also released proposed rulemaking on the specific definition of FEOC, providing further clarity on issues such as intellectual property licensing, parent-subsidiary relationships, and foreign political figures. Below is a summary of the final rule as well as **highlighted changes** from the proposed guidance.

Summary

Treasury largely finalized the 30D rule as proposed, with the following key changes. The final rule makes the calculation for qualifying critical mineral content more stringent through a new

“Traced Qualifying Value Test” while extending the previous “50% Value Added Test” through 2026. Treasury also added synthetic and natural graphite to the list of hard-to-trace critical minerals that are exempt from FEOC due diligence through 2026 and made the temporary allocation-based compliance option, previously valid through 2026, permanent.

Critical minerals requirements

Treasury finalized more stringent rules for calculating qualifying critical mineral content through a new Traced Qualifying Value Test, which replaces the 50% Value Added Test as the de facto calculation method. The 50% Value Added Test, previously only applicable for 2023 and 2024, is finalized as an optional transition rule that can be substituted for the Traced Qualifying Value Test through 2026, allowing manufacturers to simplify their supply chain analysis and value calculations.

- A qualifying critical mineral is an applicable critical mineral that is extracted or processed in the United States or FTA country, or recycled in North America. This can initially be calculated in two different ways.
- **Three-step Traced Qualifying Value Test, permanently applicable:**
 - First, automakers must fully trace any value added in each procurement chain that it applies toward the Critical Minerals Requirement.
 - Second, automakers must determine the total traced qualifying value of all applicable critical minerals, which is the sum traced qualifying value for extraction/processing as well as recycling for each applicable critical mineral.
 - For extraction and processing, the traced qualifying value of an applicable critical mineral is the amount of value added in the United States and FTA countries through extraction or processing, whichever is greater.
 - For recycling, the traced qualifying value of an applicable critical mineral is the amount of value added in North America through recycling.
 - Third, automakers must calculate qualifying critical mineral content by dividing the total traced qualifying value by the total value of critical minerals in the battery.
- **Three-step 50% Value Added Test, optional transition rule for automakers through 2026 as an alternative to the Traced Qualifying Value Test:**
 - First, automakers must fully trace any value added in each procurement chain that it applies toward the Critical Minerals Requirement.
 - Second, automakers must identify the qualifying critical minerals, defined as applicable critical minerals for which:
 - 50% of the value added through by extraction or processing occurs in the United States or FTA country, or
 - 50% of the value added through recycling occurs in North America.

- Third, automakers must calculate qualifying critical mineral content by dividing the value of qualifying critical minerals by the value of applicable critical minerals in the battery.
- Manufacturers may determine qualifying critical mineral content on a vehicle-by-vehicle basis, but may also average the qualifying critical mineral content calculation over vehicles in the same model line, plant, or class within a specific time period.

Battery components requirement

Treasury is adopting the proposed regulations related to the battery component requirements without change.

- Treasury adopted a four-step process for determining battery component eligibility:
 - First, determine whether each component is substantially entirely manufactured or assembled in North America.
 - Second, determine the total incremental value of North American battery components.
 - “Incremental value” accounts for components contained within other components that were not manufactured or assembled in North America, and is roughly equivalent to the “value added” of each component.
 - Third, determine the total incremental value of battery components for the entire battery.
 - Fourth, determine qualifying component content by dividing the total incremental value of North American battery components by the total incremental value of battery components for the entire battery.

Transition rule for impracticable-to-trace battery materials (previously called “hard-to-trace”)

Treasury is modifying the list of hard-to-trace battery materials from the proposed rule to include graphite, both synthetic and natural, used in anode materials. Rules for impracticable-to-trace battery materials expire in 2027, and Treasury will require manufacturers to report efforts to secure non-FEOC materials, including graphite, as they prepare for FEOC compliance post-transition rule.

- A transition rule for impracticable-to-trace battery materials exempts manufacturers from FEOC due diligence requirements until January 1, 2027.
- Impracticable-to-trace battery materials are specifically identified low-value battery materials that may originate from multiple sources and are often commingled during refining and processing to a degree that manufacturers cannot feasibly determine the origin of such materials. These include:
 - Applicable critical minerals contained in electrolyte salts
 - Applicable critical minerals contained in electrode binders

- Applicable critical minerals contained in electrolyte additives
- Graphite, both synthetic and natural, used in anode materials
- Qualified manufacturers must submit a report during up-front review demonstrating how they will comply with the FEOC restriction once the transition rules end, including information about efforts made to secure a FEOC-compliant battery supply.
- Multiple third-party manufacturers may also perform due diligence on their supply chains on behalf of qualified manufacturers, but must be contractually obligated to both:
 - Provide qualified manufacturers with the information required to determine FEOC compliance, and
 - Inform qualified manufacturers of any changes to supply chains that affect FEOC compliance.

FEOC compliance

Treasury is making permanent the allocation-based determination of FEOC compliance, which is intended to simplify physical tracking procedures within battery manufacturing facilities. **The procedure had previously served as a temporary rule and was set to expire on January 1, 2027 but has been made permanent in the final rule.**

- Allocation-based determination allows manufacturers to ‘allocate’ available mass of FEOC-compliant critical minerals and constituent materials to specific battery cells within a production facility, without physical tracking.
- This results in the same amount of batteries being determined FEOC-compliant as previously, but does not require separating compliant critical minerals and materials from noncompliant ones at the outset of the manufacturing process.