



Photo by: WRI's Electric School Bus Initiative

# Inflation Reduction Act of 2022

## TAX CREDIT FOR QUALIFIED COMMERCIAL CLEAN VEHICLES (SECTION 45W): AN EXPLAINER

### Inflation Reduction Act and Commercial Clean Vehicles

Section 13403 ([page 147](#)) of the Inflation Reduction Act of 2022 creates a new credit for qualified commercial clean vehicles, which will be available for vehicles acquired after December 31, 2022 through December 31, 2032. The provision is summarized as follows:

*The amount of the potential tax credit per vehicle is calculated by determining a percentage of the cost basis at 15% for a plug-in hybrid and 30% for an electric vehicle or the incremental cost increase for the new vehicle when compared against that of a comparable vehicle. Once these calculations are determined, whichever is the lesser value of the two calculations becomes the qualified commercial clean vehicle credit.*

*Further, the proposal institutes a limitation on the amount of the credit: \$7,500 for vehicles weighing under 14,000 lbs and \$40,000 for vehicles weighing over 14,000 lbs.*

*Finally, Section 13801 (pages 505, 506, 507, 508, and 509) provides the option for an elective payment for certain qualified tax-exempt entities such as school districts (i.e. any state or political subdivision thereof).*

Per the final text, the term "incremental cost" is an amount equal to the excess of the purchase price for such vehicle over such price of a comparable vehicle. The term "comparable vehicle" is any vehicle powered solely by a gasoline or diesel internal combustion engine and is comparable in size and use to the new vehicle.

Furthermore, the text defines "qualified commercial clean vehicle" which is acquired for "use or lease" by the taxpayer and not for resale. In addition, the "qualified commercial clean vehicle" must be made by a manufacturer, is operated on public roads, and is propelled by an electric motor, consistent with existing requirements of Section 30D.

Senators Padilla and Murray helped secure language providing tax exempt entities (e.g., school districts) eligibility to receive the tax benefit in the form of an elective payment (or direct payment). This tax benefit can only be applied to vehicles acquired after December 31, 2022 and before December 31, 2032.

There are no geographical restrictions for the credit, which means that any school district purchasing an electric school bus may be able to file for this credit.

IRS published a “safe harbor” provision for incremental cost, allowing school districts to use the [Department of Energy’s calculations](#) for incremental cost. However, if preferred, entities will be able to make independent determinations for incremental cost.

This new addition to the tax code would be eligible to be used in tandem with Section 71101 of Public 117-58 (Infrastructure Jobs and Investment Act), as well as the additional \$1 billion provided for the electrification of class six and seven vehicles in the Inflation Reduction Act (page 662) through the [Clean Heavy-Duty Vehicle Grant Program](#).

## CALCULATING THE CREDIT

The amount of the new tax credit will be equal to the **lesser** of the following options/calculations:

1. 30 percent of the basis (capital investment) for an electric vehicle;
  2. 5 percent of the basis (capital investment) for a plug-in hybrid vehicle;
- OR**
3. The incremental cost against that of a comparable vehicle

Additionally, the maximum available credit is based on the weight of the qualified commercial clean vehicle:

1. Less than 14,000 lbs = up to \$7,500 per vehicle
2. More than 14,000 lbs = up to \$40,000 per vehicle

To help illustrate the applicability of the new tax credit options (cost basis adjustment and/or incremental cost), please see the following examples.

## EXAMPLES OF APPLICABILITY

(\*If greater than 14,000lbs)

### DIESEL TO DIESEL

- Not available.

### DIESEL TO PLUG-IN HYBRID

While Plug-in Hybrid school buses are not currently an option on the market, if they were to become available during the time frame of the tax credit, they would go into effect like this. Rosewood School District wants to replace diesel-burning school buses with plug-in hybrids. The cost of buying a new diesel-burning school bus is \$100,000. The cost of buying a new plug-in hybrid electric bus is \$200,000. Under the new tax credit, so long as the direct payment option for tax exempt entities remain, the school district would be eligible for a payment of \$30,000 per bus.

- Incremental Cost Calculation: \$200,000 - \$100,000 = **\$100,000**
- Cost Basis Calculation: 15% \* \$200,000 = **\$30,000 (lesser of the two and below \$40,000 maximum)**

### DIESEL TO ELECTRIC

Washoe County School District wants to replace 100 of its diesel-burning school buses with electric. The cost of buying 100 new diesel-burning school buses (at \$100,000) is \$10,000,000. The cost of buying 100 new electric school buses (at \$40,000) is \$4,000,000.

With this new tax credit permitting direct payment for tax exempt entities, the school district would be eligible for a payment of \$40,000 per bus for a total of \$4 million for the 100 buses.

- Incremental Cost Calculation Per Bus: \$400,000 - \$100,000 = **\$300,000**
- Cost Basis Calculation Per Bus: 30% \* \$400,000 = **\$120,000 = \$40,000 (Lesser of the two and original calculation exceeded \$40,000 maximum per bus)**
- Total Order Incremental Cost Calculation: \$300,000 \* 100 = \$30 million
- Total Order Cost Basis Calculation: \$40,000 \* 100 = \$4 million (Lesser of the two with \$40,000 maximum per bus)

