

Deductions for Clean-Fuel Vehicles and Refueling Property:

Summary:

A limited deduction for the cost of a clean-fuel vehicle is available to individuals and businesses in the tax year the property is placed in service. The vehicle must be for your own use and its original use must begin with you. The maximum amount of the deduction is \$2,000 for cars and smaller vehicles, and 5,000 or \$50,000 for trucks or vans meeting certain size requirements. A phase-out of the clean-fuel vehicle deduction will occur starting with a 25% reduction in 2002, a 50% reduction in 2003, and a 75% reduction in 2004. The deduction will be phased out completely by 2005. Electric vehicles that qualify for the electric vehicle credit are not eligible for this deduction.

The IRS also allows a limited deduction for the cost of clean-fuel vehicle refueling property. The maximum deduction you can claim for clean-fuel vehicle refueling property placed in service at one location is \$100,000.

Clean-fuel vehicle refueling property is any property, other than a building, used to store or dispense clean-burning fuel into the fuel tank of a motor vehicle or used to recharge motor vehicles propelled by electricity.

Recharging property includes any equipment used to provide electricity to the battery of a motor vehicle propelled by electricity. It includes low-voltage recharging equipment, high-voltage (quick) charging equipment, and ancillary connection equipment such as inductive charging equipment. It does not include property used to generate electricity, such as solar panels or windmills, and does not include the battery used in the vehicle.

For more information, see IRS Publication 535, Chapter 12. Individuals and businesses can claim the deduction on Form 1040. The IRS general web site listed below under "Contact" provides a "Forms and Publications Finder." Enter the form or publication name or number that you are interested in, and click on "GO" to receive the requested form or publication.

The Internal Revenue Service has certified the following hybrid gas-electric automobiles as eligible for the clean fuel vehicle tax deduction: the Toyota Prius for model year 2001, 2002, or 2003; the Honda Insight for model years 2000, 2001 and 2002; and the Honda Civic Hybrid for model year 2003. These vehicles may claim a one-time deduction of \$2,000 for the year that the vehicle was first used. Individuals do not have to itemize deductions on their tax returns to use this benefit, but may simply take it as an adjustment to income.

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On August 12, 2002, the Internal Revenue Service certified the first hybrid gas-electric automobile as eligible for the clean fuel vehicle tax deduction under IRC Section 179A. Purchasers of a new 2001, 2002, or 2003 model Toyota Prius will now be able to claim a one-time deduction of \$2,000 for the year that the vehicle was first used. Individuals do not have to itemize deductions on their tax returns to use this benefit, but may simply take it as an adjustment to income.

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