

Inflation Reduction Act Supercharges the Development of Electric Vehicles for Local Government Units

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LGU “Tax Credits” for Clean Vehicles

- ▶ The IRA allows LGUs to receive a direct payment option in lieu of tax credits
- ▶ Applicable for tax years starting after 12/31/22 and ending before 1/1/33
- ▶ An LGU is able to claim tax credits as refundable payments

Relevant Tax Credits for Clean Municipal Vehicles

- ▶ The amount of a credit for a qualified municipal clean vehicle is the lesser of 30% of the basis of the qualified electrified vehicle or the amount equal to the excess of the purchase price over the price of a comparable conventional vehicle.
- ▶ The credit availability is further limited for such qualified commercial vehicles in the following manner: \$7,500 for vehicles having a gross weight of less than 14,000 pounds and \$40,000 for other heavier vehicles (e.g., fire trucks, etc.).
 - ▷ The qualified clean vehicle must be assembled in North America.
 - ▷ The increased availability is tied into battery components made without using components manufactured by foreign entities of concern (i.e., China) after 2023.
 - ▷ The Act includes a requirement that at least 50% of the components in an electric car battery must come from the United States, Canada or Mexico by 2024. This restriction increases to 80% in 2027.

LGU Considerations for Clean Vehicles Purchases

- ▶ LGU can utilize direct pay tax credits for clean vehicle purchases
 - ▷ Purchase the vehicle
 - ▷ File a return
 - ▷ Receive a payment of up to 30% of the price for clean vehicle
- ▶ The tax benefits favor lighter vehicles given the \$40,000 cap on the price differential between conventional and qualified clean energy vehicles for heavier vehicles.
- ▶ Should buy sooner rather than later given restrictions on battery components and future EV demand

Questions?



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