



INNOVATIVE MOTOR VEHICLE TAX CREDIT

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The state innovative motor vehicle tax credit reduces the cost of alternative fuel vehicles. This issue brief describes the tax credit and provides information on the potential consumer savings associated with the purchase of an innovative motor vehicle.

Innovative Motor Vehicles

An innovative motor vehicle uses or is converted to use alternative fuel, a hybrid combination of alternative fuel, a replaced power source that uses alternative fuel, or has been modified to include idling reduction technology. Vehicles using alternative fuel operate with electricity, natural gas, propane, ethanol, or mixed ethanol containing at least 85 percent ethanol by volume. Alternative fuels can also be fuels that make comparable reductions in carbon monoxide emissions and brown cloud pollutants, as determined by the state Air Quality Control Commission. Alternative fuel does not include any fuel that contains or is treated with methyl tertiary butyl ether (MTBE).

Tax Credit

The amount of the refundable tax credit is based on a percentage of the difference between the purchase price of the new or converted vehicle and a comparable traditional vehicle. For vehicles converted to an innovative motor vehicle or for hybrid vehicles converted to a plug-in hybrid vehicle, the credit is a percentage of the cost of the conversion. For vehicles that have their power source replaced, the credit is a percentage of the incremental cost of such replacement. The percentages used to calculate the amount of the credit depend on the type of vehicle or

fuel technology purchased and the year in which it is purchased.

The tax credit is refundable for vehicles purchased on or after January 10, 2010. Tax credits for vehicles purchased prior to this date are not refundable, but the credit is allowed to be carried forward for five years and applied to the earliest year possible.

Categories of Vehicles and Credit Percentages

Table 1 shows the categories of vehicles and fuel efficient technologies that qualify for the tax credit. Vehicles in some of the categories must meet certain emissions standards established by the U.S. Environmental Protection Agency (EPA) in order to qualify.

Table 2 shows the percentages used to calculate the credit for each category of innovative motor vehicle or fuel-efficient technology for tax years 2010 through 2015.¹ The refundable tax credit, which applies only through the 2015 income tax year, has a maximum value of \$7,500 for plug-in-hybrid vehicles and \$6,000 for all other qualifying vehicles.² As shown in the table, the percentages generally decrease over time, making the tax credit smaller. Category 7 vehicles are eligible for a state income tax credit for the 2010 tax year only. Figure 1 demonstrates how to calculate the tax credit for a Category 6 Honda Civic Hybrid.

¹The percentages are applied to the cost incurred for alternative fuel-related purchases after any credits, grants, or rebates, such as a federal tax credit, are applied.

²Section 39-22-516.5 (2), C.R.S.

Table 1
Categories of Innovative Motor Vehicles and Fuel-Efficient Technologies
Eligible for State Income Tax Credit

Category	Types of Vehicles and Fuel-Efficient Technologies
1	Must meet EPA Tier 2 Bin 1 Standard <i>Example: Nissan Leaf: 100% electric, starting MSRP \$27,000</i>
2	Diesel-electric hybrid passenger vehicles with a minimum fuel economy of 70 mpg <i>Example: Peugeot 308: average mpg 47, starting MSRP \$31,463</i>
3	Conversions of passenger vehicles and light and medium duty trucks to diesel-electric hybrid vehicles that increase the vehicle's fuel economy by 40% or more and, for tax years 2010 and 2011 only, new medium duty trucks that have 30% better fuel economy than a comparable traditional fuel truck <i>Example: Ford Fusion Hybrid: average mpg 41, starting MSRP \$20,705</i>
4	Passenger vehicles and light and medium duty trucks that use compressed natural gas (CNG) or that are converted to use CNG <i>Example: Honda Civic GX: average mpg 38, starting MSRP \$26,305</i>
5	Idling reduction technologies which allow heavy-duty diesel engines to refrain from idling over long periods when stationary
6	Vehicles with a minimum fuel economy of 40 mpg or mpgge* that meet EPA Tier 2 Bin 2 or Bin 3 Standard <i>Example: Honda Civic Hybrid: average mpg 44, starting MSRP \$24,200</i>
7	Vehicles with a minimum fuel economy of at least 30 mpg or mpgge* but less than 40 mpg or mpg that meet EPA Tier 2 Bin 2 or Bin 3 Standard <i>Example: Toyota Prius: average mpg 51, starting MSRP \$24,000</i>

mpgge* = mile per gallon gasoline equivalent. Category vehicle examples are subject to change.

Table 2
Percentages Used to Calculate the Innovative Motor Vehicle Tax Credit³

Category	Tax Years 2010 and 2011**	Tax Year 2012	Tax Year 2013	Tax Year 2014	Tax Year 2015
1	85%	75%	75%	75%	75%
2	65%	45%	25%	15%	15%
3	75%	55%	35%	25%	25%
4	75%	55%	35%	25%	25%
5	25%	25%	25%	25%	25%
6	75%	10%	10%	0%	0%
7**	50%	0%	0%	0%	0%

* For the 2010 and 2011 tax years only, the percentages used to determine the credit amount for category 3 or 4 medium duty trucks that permanently displace vehicles that are 12 years old or older are increased to 94 percent (75 percent multiplied by 1.25).

** Category 7 vehicles are eligible for a state income tax credit for the 2010 tax year only.

Figure 1
Calculating the Credit: Tax Year 2012, Category 6 Example⁴

2012 Honda Civic Hybrid	\$24,200
2012 Honda Civic	- \$15,955
Difference =	\$8,245

Tax Year 2012, Category 6 tax credit = (\$8,245 x 10%) = \$824.50

³Section 39-22-516 (2.6), C.R.S. and Section 39-22-516.5 (4), C.R.S.

⁴See Department of Revenue FYI Income 67 for more information on calculations and percentages. FYI publications can be found at the Colorado Department of Revenue's website under "Tax Library" and then "FYI Publications".