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Treasury Releases Initial Information on Electric Vehicle Tax Credit Under Newly Enacted Inflation Reduction Act

Today's guidance marks a first step in the Biden Administration's implementation of Inflation Reduction Act tax credits to lower costs for families and make electric vehicles more affordable

WASHINGTON – Following President Biden's signing the Inflation Reduction Act into law today, the U.S. Department of the Treasury and Internal Revenue Service published initial information on changes to the tax credit for electric vehicles strengthened by the landmark legislation. The Inflation Reduction Act represents the most aggressive action addressing climate change in our nation's history and includes tax incentives designed to lower costs for working families, grow the clean energy economy, and strengthen America's supply chains. Starting tomorrow, the Inflation Reduction Act's new requirement that qualifying electric vehicles were assembled in North America goes into effect. Treasury and the Internal Revenue Service [released guidance](#) and [FAQs](#) with information on how the North America final assembly requirement will work so consumers can determine what vehicles are eligible and claim a credit of up to \$7,500 after their purchase. Starting January 1, consumers may be eligible for a tax credit for used or previously owned cars and businesses may be eligible for a new commercial clean vehicle credit.

To assist consumers identifying eligible vehicles, the Department of Transportation and Department of Energy published new resources today to help those interested in claiming tax credits for an electric vehicle purchased after the Inflation Reduction Act's enactment on August

16, 2022. Consumers and auto dealers can enter the Vehicle Identification Number (VIN) of a specific vehicle into a [site](#) provided by the U.S. Department of Transportation to determine its eligibility. For a broader view of what vehicles may now be eligible for this credit, the Department of Energy [published a list](#) of Model Year 2022 and early Model Year 2023 electric vehicles that likely meet the final assembly requirement. The eligibility for a specific vehicle should be confirmed using its VIN number.

The final assembly requirement does not apply until after the Inflation Reduction Act's enactment on August 16, 2022. Individuals who entered into a written binding contract to purchase a new qualifying electric vehicle before August 16, 2022, but do not take possession of the vehicle until on or after August 16, 2022 (for example, because the vehicle has not been delivered), can claim the EV credit based on the rules that were in effect before the Inflation Reduction Act's enactment.

Looking ahead, the Inflation Reduction Act makes several additional changes to the electric vehicle tax credit that will take effect starting in 2023. Treasury and the Internal Revenue Service will release more information about additional tax credits under the Inflation Reduction Act in the weeks and months ahead.

[Link to FAQs](#)

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Plug-in Electric Drive Vehicle Credit at a Glance

Updated information for consumers as of August 16, 2022

New Final Assembly Requirement

If you are interested in claiming the tax credit available under section 30D (EV credit) for purchasing a new electric vehicle after August 16, 2022 (which is the date that the Inflation Reduction Act of 2022 was enacted), a tax credit is generally available only for qualifying electric vehicles for which **final assembly occurred in North America** (final assembly requirement).

The Department of Energy has provided a [list of Model Year 2022 and early Model Year 2023 electric vehicles](#) that **may** meet the final assembly requirement. Because some models are built in multiple locations, there may be vehicles on the Department of Energy list that do not meet the final assembly requirement in all circumstances.

To identify the manufacture location for a specific vehicle, please search the vehicle identification number (VIN) of the vehicle on the VIN Decoder website for the National Highway Traffic Safety Administration (NHTSA). The website, including instructions, can be found at [VIN Decoder](#).

Transition Rule for Vehicles Purchased before August 16, 2022

If you entered into a written binding contract to purchase a new qualifying electric vehicle before August 16, 2022, but do not take possession of the vehicle until on or after August 16, 2022 (for example, because the vehicle has not been delivered), you may claim the EV credit based on the rules that were in effect before August 16, 2022. The final assembly requirement does not apply before August 16, 2022.

Vehicles Purchased and Delivered between August 16, 2022 and December 31, 2022

If you purchase and take possession of a qualifying electric vehicle after August 16, 2022 and before January 1, 2023, aside from the final assembly requirement, the rules in effect before the enactment of the Inflation Reduction Act for the EV credit apply (including those involving the manufacturing caps on vehicles sold). If you entered into a written binding contract to purchase a new qualifying vehicle before August 16, 2022, see the rule above.

What Is a Written Binding Contract?

In general, a written contract is binding if it is enforceable under State law and does not limit damages to a specified amount (for example, by use of a liquidated damages provision or the forfeiture of a deposit). While the enforceability of a contract under State law is a facts-and-circumstances determination to be made under relevant State law, if a customer has made a significant non-refundable deposit or down payment, it is an indication of a binding contract. For tax purposes in general, a contract provision that limits damages to an amount equal to at least 5 percent of the total contract price is not treated as limiting damages to a specified amount. For example, if a customer has made a non-refundable deposit or down payment of 5 percent of the total contract price, it is an indication of a binding contract. A contract is binding even if subject to a condition, as long as the condition is not within the control of either party. A contract will continue to be binding if the parties make insubstantial changes in its terms and conditions.

Future Guidance

To reduce carbon emissions and invest in the energy security of the United States, the Inflation Reduction Act of 2022 significantly changes the eligibility rules for tax credits available for clean vehicles beginning in 2023. The Internal Revenue Service and the Department of the Treasury will post information and request comments from the public on various existing and new tax credit incentives in the coming weeks and months. Please look for updates on [IRS.gov](https://www.irs.gov) and other announcements from the Administration

Pre-Inflation Reduction Act of 2022 Information

The information below pre-dates the enactment of the Inflation Reduction Act of 2022 but, subject to the final assembly rule described above, remains relevant for qualifying vehicles purchased and delivered prior to January 1, 2023.

You may be eligible for a credit under Section 30D(a), if you purchased a car or truck with at least four wheels and a gross vehicle weight of less than 14,000 pounds that draws energy from a battery with at least 4 kilowatt hours and that may be recharged from an external source. You must have purchased it in or after 2010 and begun driving it in the year in which you claim the credit. The credit ranges between \$2,500 and \$7,500, depending on the capacity of the battery. The credit begins to phase out for a manufacturer, when that manufacturer sells 200,000 qualified vehicles.

You may be eligible for a credit under section 30D(g), if you purchased a 2- or 3-wheeled vehicle that draws energy from a battery with at least 2.5 kilowatt hours and may be recharged from an external source. You must have purchased the vehicle in 2012 or 2013 and

begun using it in the year in which you claim the credit. The credit is 10% of the purchase price of the vehicle with a maximum credit of \$2,500.

Frequently Asked Questions on the Inflation Reduction Act's Initial Changes to the Electric Vehicle Tax Credit

Q: How does the Inflation Reduction Act modify the existing tax credit for new electric vehicles?

The Inflation Reduction Act introduces a number of significant changes to the tax credit for new electric vehicles (section 30D). These changes will phase in over time. Effective immediately after enactment of the Inflation Reduction Act (after August 16, 2022), the tax credit is only available for qualifying electric vehicles *for which final assembly occurred in North America*. Further changes to the eligibility rules will begin in 2023.

Overall, the reforms in the Inflation Reduction Act mean that the tax credit for electric vehicles will evolve considerably over the coming months and years. However, the only change to the electric vehicle credit that takes effect immediately after the President signs the Inflation Reduction Act into law is the North America final assembly requirement.

Separately, starting in 2023, the Inflation Reduction Act also establishes tax credits for pre-owned clean vehicles (section 25E) and for commercial clean vehicles (section 45W). Treasury and the Internal Revenue Service will release more information on all the clean vehicle credits in the coming months.

Q: Now that the President has signed the Inflation Reduction Act into law, the North America final assembly requirement will enter into force after August 16, 2022. How do I know if an electric vehicle's final assembly occurred in North America?

Dealers and consumers can follow a simple two-step process to check whether a vehicle's final assembly occurred in North America.

First, the Department of Energy's Alternative Fuels Data Center (AFDC) has developed a list of Model Year 2022 and 2023 electric vehicles that likely meet the North America final assembly requirement, available here: <https://afdc.energy.gov/laws/inflation-reduction-act>. Dealers and consumers can check this list to determine whether a make/model is potentially eligible for the credit in light of the final assembly requirement. Because some models are built in multiple locations, there may be vehicles on this list that do not meet the final assembly requirement in all circumstances.

Second, to identify whether a specific vehicle's final assembly occurred in North America, dealers and consumers should enter the 17-character Vehicle Identification Number (VIN) into the National Highway Traffic Safety Administration's VIN Decoder tool, available here: <https://vpic.nhtsa.dot.gov/decoder/>. Dealers and consumers can refer to the "Plant Information" field at the bottom of the page result, which expressly lists the build plant and country for the searched vehicle.

Q: How do I claim this credit?

Consumers that purchase a qualifying electric vehicle can continue to claim the electric vehicle tax credit on their annual tax filing. Starting in 2024, the Inflation Reduction Act establishes a mechanism that will allow car buyers to transfer the credit to dealers at the point of sale so that it can directly reduce the purchase price.

Q: If I signed a contract to purchase an electric vehicle prior to enactment of the Inflation Reduction Act (before August 16, 2022) but have not yet taken possession of the vehicle, will the changes in the Inflation Reduction Act impact my tax credit?

No. If you entered into a written binding contract to purchase a qualifying electric vehicle before the date of enactment of the Inflation Reduction Act (August 16, 2022), the changes in the Inflation Reduction Act will not impact your tax credit. You may claim the credit based on the rules that were in effect before August 16, 2022. The Internal Revenue Service provides information on “written binding contract” here: <https://www.irs.gov/businesses/plug-in-electric-vehicle-credit-irc-30-and-irc-30d>.

Q: What if I purchase and take possession of a qualifying electric vehicle after August 16, 2022 but before the end of 2022?

The only change to the existing electric vehicle credit that takes effect after August 16, 2022 and before the end of 2022 is the introduction of the North America final assembly requirement. Otherwise, the rules in effect before enactment of the Inflation Reduction Act for the electric vehicle credit remain in effect, including the phase-out for manufacturers that have sold over 200,000 vehicles in the United States.

Q: Where can I find out more about the other changes taking effect starting next year?

The Internal Revenue Service and the Department of the Treasury will post information and request comments from the public on various existing and new tax credits in the coming weeks and months, including on further changes to eligibility rules for clean vehicle tax credits. Please look for updates on IRS.gov and other announcements from the Administration.