



BDO Driving Profits
NEWSLETTER

INSIGHTS FROM THE BDO AUTO DEALERSHIPS PRACTICE

An Update on Renewable Energy Tax Credits for Dealerships



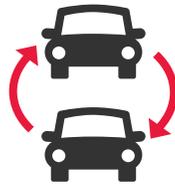
BDO[®]

The passage of the Inflation Reduction Act (IRA) has created a momentous opportunity for companies to advance clean energy commitments while lightening tax burdens. Signed into law on August 16, 2022, the IRA is the largest climate investment legislation in history, allocating \$369 billion to clean energy programs over the next 10 years — including many new clean energy credits and incentives for businesses.

THE IRA'S MOST SIGNIFICANT PROVISIONS FOR THE AUTOMOTIVE INDUSTRY INCLUDE:



Expansion of the
clean vehicle credit



Introduction of a credit
for **previously owned**
clean vehicles



Introduction of a
credit for qualified
commercial clean vehicles



Opportunities for increased
credit rates under the
clean energy investment
tax credit (ITC)



Reinstatement and
modification of **alternative**
fuel vehicle refueling
property credit



Introduction of
monetization options of
tax credits



The credit for the purchase of clean vehicles has been modified and extended through December 31, 2032.

EXPANSION OF CLEAN VEHICLE CREDIT

The credit for the purchase of clean vehicles has been modified and extended through December 31, 2032. Eligibility for the credit now depends on whether the vehicle battery meets critical mineral and battery component requirements. If met, each requirement results in a credit of \$3,750, for a maximum credit of \$7,500 per vehicle.

The new critical mineral and battery component requirements will be in effect after the Department of the Treasury and the IRS issue proposed guidance on the requirements.

Until the proposed guidance is released, the credit amount will be determined based on the previous battery capacity requirements. The base credit under the previous rules is \$2,500, with an additional \$417 for a battery with a capacity of five kilowatt hours, and an additional \$417 for each kilowatt hour of capacity in excess of five kilowatt hours, for the same maximum credit of \$7,500.

Additional restrictions were also enacted for a vehicle to qualify for the credit:

- ▶ Final assembly of the vehicle must be in North America
- ▶ The MSRP of vehicle is not in excess of \$80,000 for vans, SUVs, and pickup trucks
- ▶ MSRP of vehicle is not in excess of \$55,000 for other vehicles

Lastly, income thresholds have been put in place that limit the ability of high-income taxpayers to claim the credit:

- ▶ \$300,000 for married couples filing jointly
- ▶ \$225,000 for heads of households
- ▶ \$150,000 for all other filers

Dealers must report this information to both the buyer of the vehicle and the IRS:

- ▶ Taxpayer name and ID number
- ▶ Vehicle identification number
- ▶ Battery capacity
- ▶ Verification that original use of the vehicle commences with the taxpayer
- ▶ Maximum credit allowable under the new clean vehicle credit

Beginning in 2024 the credit will be transferable to eligible entities, including the ability to make advanced payments of the credit directly to registered dealers. Treasury and the IRS are developing guidance and a program that will enable this option.

INTRODUCTION OF CREDIT FOR PREVIOUSLY OWNED (USED) CLEAN VEHICLES

Used electric vehicles (EVs) with a sales price of \$25,000 or less purchased from January 1, 2023 through December 31, 2032 may be eligible for the lesser of \$4,000 or 30% of the sales price credit. A used electric vehicle qualifies for the credit if the following criteria are met:

- ▶ Vehicle is sold by a dealer
- ▶ Vehicle had not previously been transferred after August 16, 2022, to a [qualified buyer](#)
- ▶ Model year limitations of at least two years earlier than the calendar year of purchase
- ▶ Gross vehicle weight of less than 14,000 pounds
- ▶ Battery capacity of at least seven kilowatt hours

As with the clean vehicle credit, taxpayer eligibility to claim the used clean vehicle credit is subject to income limitations.

Dealers must report the below required information to both the taxpayer and the IRS:

- ▶ Taxpayer and dealer names and taxpayer ID numbers
- ▶ Sale date and sale price
- ▶ Maximum credit allowable under the used clean vehicle credit
- ▶ Vehicle identification number
- ▶ Battery capacity

INTRODUCTION OF CREDIT FOR QUALIFIED COMMERCIAL CLEAN VEHICLES

Qualified commercial vehicles acquired after December 31, 2022, and through December 31, 2032, are eligible for a credit equal to the lesser of 30% of the cost of the vehicle not powered by a gasoline or diesel internal combustion engine or the incremental cost of the vehicle. The credit cannot exceed \$7,500 for vehicles weighing less than 14,000 pounds or \$40,000 for all other vehicles, and is available only for depreciable property acquired from qualified manufacturers. The credit is claimed by the owner of the vehicle.

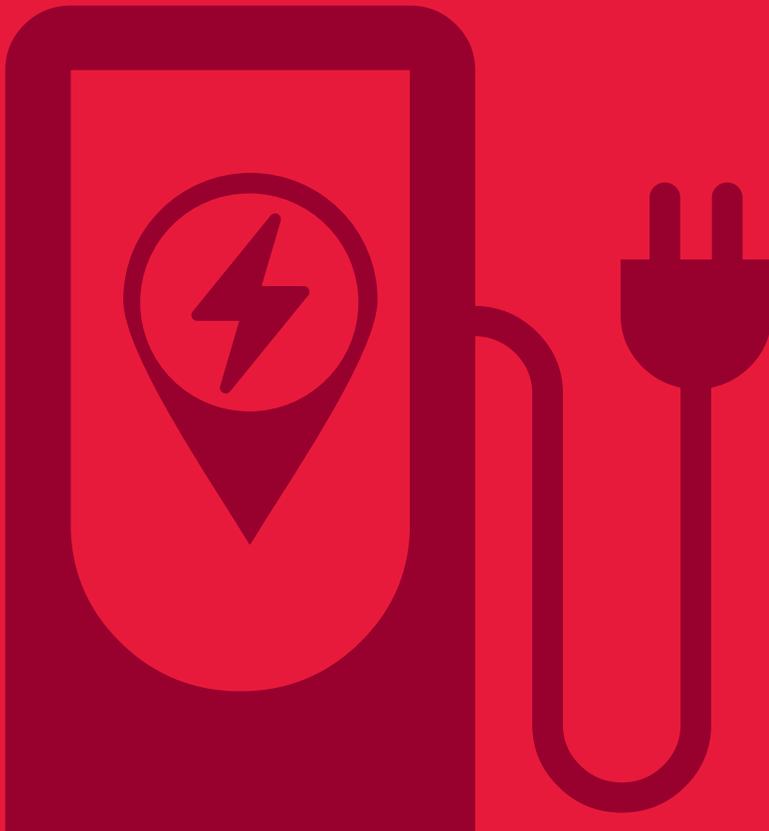
If the qualified clean vehicle is leased, the owner of the vehicle is determined based on whether the lease is respected as a lease or treated as a sale for federal income tax purposes. The determination of whether a lease is to be treated as a sale is

determined by the terms of the agreement. Terms that would increase the possibility that the transaction will be treated as a sale include:

- ▶ A lease term that covers more than 80% to 90% of the economic useful life of the vehicle.
- ▶ An incentive for the lessee to purchase the vehicle at the end of the lease term.
- ▶ Terms that result in the lessor transferring ownership risk to the lessee, for example, a terminal rental adjustment clause (TRAC) provision that requires the lessee to pay the difference between the actual and expected value of the vehicle at the end of the lease.

REINSTATEMENT AND MODIFICATION OF ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT

The alternative fuel vehicle refueling property credit expired on December 31, 2021. The IRA has extended the original credit through December 31, 2022, and modified the credit for property placed in service between January 1, 2023 and December 31, 2032. Beginning in 2023, the credit applies only to charging or refueling property placed in service in an eligible census tract described in IRC Section 45D(e) or not an urban area as defined by the Bureau of the Census. The credit for zero-emissions charging and refueling property is up to \$100,000, with a base credit rate of 6% and a maximum credit rate of 30% if the prevailing wage and apprenticeship requirements are met.



Beginning in 2023, the credit applies only to charging or refueling property placed in service in an eligible census tract described in IRC Section 45D(e) or not an urban area as defined by the Bureau of the Census.

OPPORTUNITIES FOR INCREASED CREDIT RATES UNDER THE CLEAN ENERGY INVESTMENT TAX CREDIT (ITC)

Solar panels may be a natural fit for many auto dealerships. With the rising cost of electricity, the growing demand for EVs and EV charging stations, and the amount of real estate often available — such as on dealership rooftops or underutilized parking spaces — the use of solar panels might be a sensible option. The cost of installing the renewable energy property can be offset by utilizing the renewable energy ITC.

Under current tax law, the ITC allows a 30% credit rate for projects that have a maximum capacity equal to or less than 1 mega-watt and meet the prevailing wage and apprenticeship requirements. This is applicable to projects that start construction prior to January 1, 2025. In conjunction with the newly added bonus credits a project could qualify for a credit rate of 60%.

The bonus credits introduced by the IRA includes the following:

- ▶ Up to 10% bonus credit for projects located in energy communities,
- ▶ Up to 10% bonus credit for projects that meet certain domestic content requirements
- ▶ A 10% bonus credit for qualified solar projects that are located in low-income communities.

INTRODUCTION OF THE TRANSFERABILITY MONETIZATION METHOD

The act includes a new option for the monetization of the Alternative Fuel Refueling Property and renewable energy investment credits in the form of transferability. Taxpayers can elect a one-time transfer of all or a portion of certain tax credits for cash to unrelated taxpayers. The cash received for the transfer of the credits is not included in taxable income, nor is the cash used to pay for the transferred credits deducted from income.

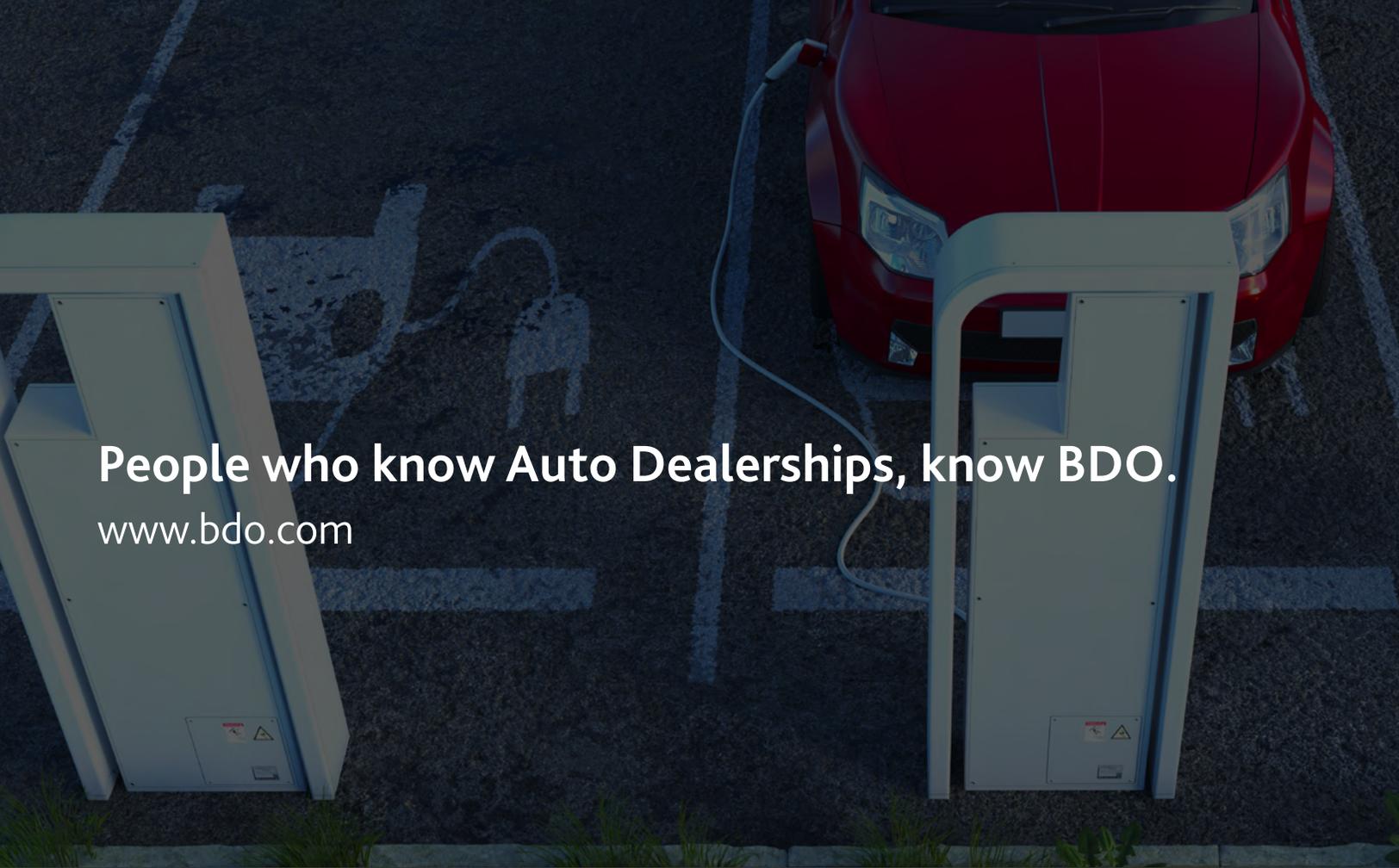
The cost of installing the renewable energy property can be offset by utilizing the renewable energy ITC.



HOW BDO CAN HELP

Application of the various tax credit rules can be complex and difficult to navigate. BDO can help. Whether it's determining and documenting the "begin construction" date, identifying which aspects of the construction/installation process may qualify for the available credits or navigating the prevailing wage and apprenticeship requirements and domestic content requirements, we have the knowledge to help your dealership maximize the tax benefits.



A photograph of a red car parked at a charging station at night. The car is plugged into a charging station, and the scene is dimly lit, with the car's headlights and the station's lights providing the main illumination. The background shows a dark asphalt parking lot with some white markings.

People who know Auto Dealerships, know BDO.

www.bdo.com

AUSTIN VOSBURGH

STS Business Incentives Group Experienced Manager
avosburgh@bdo.com

MATTHIEU BOSS

STS Business Incentives Group Senior Associate.
mboss@bdo.com

MEGAN CONDON

Tax Partner, Auto Dealerships Practice Co-Leader
mcondon@bdo.com

JORDAN ARGIZ

Audit Partner, Auto Dealerships Practice Co-Leader
jargiz@bdo.com

ABOUT BDO'S AUTO DEALERSHIPS PRACTICE

BDO is a valued business advisor for auto dealerships, bringing a wealth of experience on traditional and emerging accounting, tax, and advisory issues. The firm's Auto Dealerships industry practice works with a variety of companies across the dealership sector, including automotive, motorcycle, marine, RV, rental equipment and more. We help dealerships of all sizes achieve their desired business outcomes.

ABOUT BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2023 BDO USA, LLP. All rights reserved.