

IRS Incentives for Hybrid Owners

The hybrid car has not come into the world without a shroud of rumors following carefully behind. From rumors of exploding batteries, electrical and digital nightmares, and poorly met expectations letting down consumers, the hybrid has had to struggle to overcome many misconceptions. Makers have not let myth and rumor keep them from creating better hybrids in new and old models. Toyota, Ford, Lexus, Honda, Nissan, Mazda, Dodge, Chevy, GM and Saturn are either in the process of creating, or have already, released several high performing hybrids. A total of 20 hybrid models are available, or are soon to be so. With just about every maker producing hybrids, incentives to keep the industry rolling are filling up the market with a fresh batch of rumors. The IRS is stepping up to explain as clearly as they can, what one of these options for the buyers of the most fuel efficient vehicles, really are shaping up to be. The Clean Vehicle adjustment being used for personal and business owners is helping to encourage the purchase of hybrid vehicles.

Some may still be skeptical since gas markets are so closely linked with politics for most of the world. The truth is that the government is actually interested in getting away from foreign fuel dependency. Getting more people to spend the extra money on a hybrid is being encouraged to help the market. The IRS is playing a major role in these incentives by offering tax credits. The catch is that one of these credits have limits based upon how many hybrids are sold of each model. After a point, the credits will be phased out. On the Federal level, these credits run from a few hundred dollars to more than \$2,500 for buying the 2006 Ford Escape. Apparently, like most IRS laws, the calculations for the credits are a complicated jumble of formulas based on how many of a model is sold, over a particular period of time. Luckily, most buyers of hybrids are successfully receiving the credits. Buying a Toyota or Honda hybrid requires that you're one of the first 60,000 people to purchase one starting in January 2006. The amount of the credit also depends on which percentage of the tax bracket one falls into. Buyers of hybrids in 2004 or 2005 were able to claim as high as a \$2,000 deduction on their taxes. For those in the 15% tax bracket, the deduction fell to about \$300.

The tax credits are based on the Working Families Tax Relief Act of 2004. According to the IRS, the credits will be phased out after 2006 and must be claimed for the year that the hybrid was purchased. Luckily, one can claim the back credit for up to three years from the purchase of the hybrid by using the 1040X form, or the Amended U.S. Individual Tax Return form. Another form related to hybrid owners is the IRS Publication 535. Mostly used for business expenses, this form can be used for almost anyone who owns a hybrid, whether or not they use it for business purposes.

While hybrid owners are also getting incentives on the state level with their state income tax returns and also with special car pool or HOV lane privileges, some believe that the incentives on the Federal level need to be even better. For example, the fact that the incentive will be as little as \$500 for 2006, and thereafter, nonexistent, does not provide many people time to catch up with the extra money they will should purchase a hybrid vehicle in the first place. Many see the mainstream entry of hybrids into the automobile market as the sign that fuel efficiency and environmental concerns are becoming part of the American culture. One offset to the phase out of tax incentives for the purchase of hybrids is that the prices themselves are more attainable with each year. Right now, most people have to pay \$5,000 to \$9,000 more for a hybrid version of the car or SUV they want. That number is a bit more than most people are ready to pay yet, but with almost every major maker of vehicles producing hybrids, it is foreseeable that hybrid prices will get lower with each passing year, whether or not incentives are offered by the government.

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