



News Release

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IRS MOVES TO CLARIFY TAXPAYER DEDUCTION FOR HYBRID VEHICLES

WASHINGTON – The Internal Revenue Service has issued a revenue procedure that helps determine the deduction allowed to individuals who are the original purchasers of one of the new hybrid gas-electric automobiles entering the market.

Federal tax law allows individuals to claim a deduction for the incremental cost of permitting a motor vehicle to be propelled by a clean-burning fuel. The electricity in the hybrid gas-electric vehicles is a clean-burning fuel. By combining an electric motor with a gasoline-powered engine, these hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines.

The amount of the deduction depends on the particular hybrid automobile being purchased and will be set in the coming months after manufacturers document for the IRS, under the process specified in Revenue Procedure 2002-42, the incremental cost of each vehicle's electric motor and related equipment. This incremental cost will provide the basis for a one-time deduction of up to \$2,000 in the year the vehicle is first used.

Individuals take this benefit as an adjustment to income. They do not have to itemize deductions on their tax returns to claim it. Once set, the deduction would apply not only to returns being filed for tax year 2002, but also for the previous two years for which such hybrid vehicles were available. The deduction could be claimed for a past year by a taxpayer filing an amended return.

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