

Part III – Administration, Procedural, and Miscellaneous

Phase-out of Credit for New Qualified Hybrid Motor Vehicles and New Advanced Lean Burn Technology Motor Vehicles

Notice 2006-78

SECTION 1. PURPOSE

This notice announces the credit phase-out schedule for advanced lean burn technology motor vehicles and hybrid passenger automobiles and light trucks manufactured by Toyota Motor Corporation.

SECTION 2. BACKGROUND

Section 30B(a)(2) of the Internal Revenue Code provides for a credit determined under § 30B(c) for certain new advanced lean burn technology motor vehicles. Section 30B(a)(3) provides for a credit determined under § 30B(d) for certain new qualified hybrid motor vehicles. Both the new advanced lean burn technology motor vehicle credit and the new qualified hybrid motor vehicle credit begin to phase out for a manufacturer's passenger automobiles and light trucks in the second calendar quarter after the calendar quarter in which at least 60,000 of the manufacturer's passenger automobiles and light trucks that qualify for either credit have been sold for use or lease in the United States (determined on

a cumulative basis for sales after December 31, 2005). Taxpayers purchasing the manufacturer's vehicles during the first two calendar quarters of the phase-out period may claim only 50 percent of the otherwise allowable credit.

Taxpayers purchasing the manufacturer's vehicles during the third and fourth quarters of the phase-out period may claim only 25 percent of the otherwise allowable credit. No credit is available for vehicles purchased after the last day of the fourth quarter of the phase-out period.

Notice 2006-9, 2006-6 I.R.B. 413, provides procedures for a vehicle manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) to certify to the Internal Revenue Service (Service) both (1) that a particular make, model, and model year of vehicle qualifies for either the new advanced lean burn technology motor vehicle credit or the new qualified hybrid motor vehicle credit and (2) the amount of the credit allowable with respect to that vehicle.

Section 5.05 of Notice 2006-9 requires a manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) that has received from the Service an acknowledgement of its certification for a particular make, model, and model year of vehicle to submit to the Service a report of the number of qualified vehicles sold by the manufacturer (or, in the case of a foreign vehicle manufacturer, its domestic distributor) to retail dealers during the calendar quarter. A qualified vehicle is defined for this purpose as any passenger

automobile or light truck that is a new advanced lean burn technology motor vehicle or a new qualified hybrid motor vehicle.

In accordance with the section 5.05 of Notice 2006-9, Toyota Motor Sales, U.S.A., Inc. has submitted quarterly reports that indicate that its cumulative sales of qualified vehicles to retail dealers reached the 60,000-vehicle limit during the calendar quarter ending June 30, 2006. Accordingly, the credit for all new advanced lean burn technology motor vehicles or new qualified hybrid passenger automobiles or light trucks manufactured by Toyota Motor Corporation will begin to phase out on October 1, 2006.

SECTION 3. SCOPE OF NOTICE

This notice applies to any make, model, or model year of new advanced lean burn technology motor vehicle or new qualified hybrid passenger automobile or light truck that is--

(1) manufactured by Toyota Motor Corporation; and

(2) purchased for use or lease in the United States on or after October 1, 2006.

SECTION 4. Credit Amount

.01 *In general.* If a new advanced lean burn technology motor vehicle or new qualified hybrid passenger automobile or light truck manufactured by Toyota Motor Corporation is purchased for use or lease after September 30, 2006, the allowable credit is as follows:

(1) For vehicles purchased for use or lease on or after October 1, 2006, and on or before March 31, 2007, the credit is 50 percent of the otherwise allowable amount determined under § 30B(c) or (d) (whichever is applicable);

(2) For vehicles purchased for use or lease on or after April 1, 2007, and on or before September 30, 2007, the credit is 25 percent of the otherwise allowable amount determined under § 30B(c) or (d) (whichever is applicable);
and

(3) For vehicles purchased for use or lease on or after October 1, 2007, no credit is allowable.

.02 Certified Vehicles. The following tables set forth the credit available on or after October 1, 2006, for hybrid motor vehicles for which Toyota Motor Sales, U.S.A., Inc. received an acknowledgement of its certification from the Service on or before September 19, 2006:

Table 1

October 1, 2006 – March 31, 2007		
Model Year	Model	Credit Amount
2005	Prius	\$1,575
2006	Prius	\$1,575
2006	Highlander 4WD Hybrid	\$1,300
2006	Highlander 2WD Hybrid	\$1,300

2006	Lexus RX400h 2WD	\$1,100
2006	Lexus RX400h 4WD	\$1,100
2007	Camry Hybrid	\$1,300
2007	Lexus GS 450h	\$775

Table 2

April 1, 2007 – September 30, 2007		
Model Year	Model	Credit Amount
2005	Prius	\$787.50
2006	Prius	\$787.50
2006	Highlander 4WD Hybrid	\$650
2006	Highlander 2WD Hybrid	\$650
2006	Lexus RX400h 2WD	\$550
2006	Lexus RX400h 4WD	\$550
2007	Camry Hybrid	\$650
2007	Lexus GS 450h	\$387.50

Table 3

On or after October 1, 2007		
Model Year	Model	Credit Amount
2005	Prius	\$0.00
2006	Prius	\$0.00
2006	Highlander 4WD Hybrid	\$0.00
2006	Highlander 2WD Hybrid	\$0.00
2006	Lexus RX400h 2WD	\$0.00
2006	Lexus RX400h 4WD	\$0.00
2007	Camry Hybrid	\$0.00
2007	Lexus GS 450h	\$0.00

The principal author of this notice is Nicole R. Cimino of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this notice contact Ms. Cimino at (202) 622-3120 (not a toll-free call).