

IRS News Release

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2004 Toyota Prius Certified for Clean-Burning Fuel Deduction

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WASHINGTON — The Internal Revenue Service has certified the 2004 Toyota Prius as being eligible for the clean-burning fuel deduction. The certification means taxpayers who purchase a new hybrid vehicle may claim a tax deduction of up to \$2,000 on Form 1040.

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by 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.

Under current law, the clean-burning fuel deduction will be reduced incrementally until it expires beginning 2007. Purchasers of IRS-certified cars will be able to claim a deduction of \$2,000 if the vehicle is placed in service on or before Dec. 31, 2003. The \$2,000 maximum deduction will be reduced by 25 percent for vehicles placed into service in 2004, by 50 percent in 2005 and by 75 percent in 2006. No deduction will be allowed for vehicles placed in service after Dec. 31, 2006.

Under the law, the one-time deduction must be taken in the year the vehicle was originally used. The taxpayer must be the original owner. Individuals take this benefit as an adjustment to income on their Form 1040. They do not have to itemize deductions on their tax returns to claim it. To claim the deduction, write "clean fuel" on Line 33 of the 2003 Form 1040. Also, see the Instructions for Form 1040.

The amount of the deduction for the Prius was set after the manufacturer, Toyota Motor Sales, U.S.A., Inc., documented for the IRS the incremental cost related to the vehicle's electric motor and related equipment.

The IRS previously certified the Toyota Prius for model years 2001, 2002 and 2003. The IRS also previously certified the Honda Insight for model years 2000, 2001 and 2002 and the Honda Civic Hybrid for model year 2003.