

## Highway and Energy Bill Summary Energy Policy Act of 2005

Under the Energy Policy Act of 2005 there are two Income Tax Credits available. Generally called the Energy Bill, the two income tax credits that fleets may be eligible to obtain are: Income Tax Credit for Alternative Fuel Vehicle and Income Tax Credit for Alternative Fuel Infrastructure. Each Income Tax Credit provides an incentive for fleet managers to convert their vehicles to an alternative fuel motor vehicle.

### Income Tax Credit for Alternative Fuel Vehicles

Under The Energy Policy Act of 2005, a tax incentive is provided with the purchase of a Natural Gas Vehicle (NGV). The Income Tax Credit is equal to the applicable percentage of the incremental cost of an NGV vehicle. The applicable percentage available for a new alternative fuel vehicle is:

- A) 50 percent of the incremental cost if the vehicle is a dedicated alternative fuel vehicle.
- B) An additional 30 percent (80 percent total) if the new alternative fuel vehicle:
  - a. Has received a certificate that meets the EPA's most stringent emission standard available as of August 2005\*
  - b. Has received a certificate that meets California's most stringent emission standard available as of August 2005\*

**\*All of the following information should be provided by the manufacturer's certification from the IRS or the distributor.**

### Incremental cost

The incremental cost of any NGV is equal to the amount of the manufacturer's suggested retail price of the natural gas vehicle over the price of a comparable diesel or gasoline motor vehicle. As stated in the Energy Policy Act, there are limits to how much will be allowed in each individual gross vehicle weight rating (GVW). They are:

A) Light duty vehicle (up to 8,500lbs)	Eligible for up to \$5000
B) Medium duty vehicle (up to 14,000lbs)	Eligible for up to \$10,000
C) Medium heavy duty vehicle (up to 26,000lbs)	Eligible for up to \$25,000
D) Heavy duty vehicle (over 26,000lbs)	Eligible for up to \$40,000

### How to obtain the Tax Credit:

To obtain the Income Tax Credit for the Alternative fuel vehicle, the vehicle must be purchased after December 30, 2005. The forms that are required to be filled in are Form 8910 (Alternative Motor Vehicle Credit) and the Income Tax Refund Form (1040). Each form is available on the Internal Revenue Service website ([www.irs.gov](http://www.irs.gov)) with instructions. This tax credit is set to expire December 31, 2010.

### Additional information

The following requirements must be met before qualifying for the credit:

- The original use of the vehicle began with the applicant
- The applicant acquired the vehicle for his/her use or to lease to others, and not for the purpose of resale; and
- The applicant primarily uses the vehicle in the United States.

### Tax Exempt Entity

Tax Exempt Entities are not eligible to receive the Alternative Fuel Vehicle Tax Incentive. If the applicant is the seller of a new vehicle to a tax-exempt organization, the applicant can claim the credit, but only if he/she reports, in writing, to the purchaser, the amount of the tentative credit allowable for the vehicle.

For further instructions, refer to the NGVA ([www.ngvc.org](http://www.ngvc.org)) or the Internal Revenue Service ([www.irs.gov](http://www.irs.gov)) websites.

## **Income Tax Credit for Fuel Infrastructure**

Under the Energy Policy Act of 2005, a tax incentive is provided to the fuel Infrastructure owner. The Income Tax Credit is equal to 30 percent of the cost of any qualified alternative fuel vehicle refueling property, placed in service by the taxpayer.

A qualified alternative refueling property is any property (not a building or any other structural component) used to do either of the following:

- A) Store or dispense a clean burning fuel into an alternative motor vehicle, but only if the storage or dispensing
- B) Recharge motor vehicles propelled by electricity, but only if the property is located at the point where the vehicle are recharged.

In addition, the following requirements must be met to qualify for the credit

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- A) The refueling property was put into service after 2005.
- B) The original use of the property began with you.
- C) The applicant acquired the property for his/her use or to lease to others, and not for the purpose of resale.

### Tax Credit

With a tax credit equal to 30 percent, the credit allowed shall not exceed

- A) \$30,000 for a large fuel station
- B) \$1,000 for a small refueling station (home application)

The existing tax deduction of \$100,000 for refueling property is repealed.

### How to obtain the Credit:

To apply for the Tax Credit for Fuel Infrastructure, the Form 8911 (Alternative Fuel Vehicle Refueling Property Credit) must be completed along with the Income Tax Refund Form (1040)

Each form is available online at the Internal Revenue Service ([www.irs.gov](http://www.irs.gov)).

### Additional information

#### Tax Exempt Entity

If the applicant is a tax exempt organization it cannot receive the tax credit. The seller of the new refueling property can claim the credit, but only if the seller informs the organization in a letter of the amount of the tentative credit allowable for the property.

The Tax credit is effective on equipment placed in service after December 31, 2005 and expires December 31, 2009

For further instruction refer to the NGVA ([www.ngvc.org](http://www.ngvc.org)) or the Internal Revenue Service ([www.irs.gov](http://www.irs.gov)) websites.

## **Highway Bill**

Under the Highway Bill, The Safe, Accountable, Flexible, Efficient Transportation Equity (SAFETEA-LU) was expanded in 2005 to include CNG, LNG, LPG and hydrogen. The expansion also entailed an excise tax increase to the seller of CNG or LNG. It also provides a tax credit for each alternative fuel vehicle?

### **Excise Tax Credit to the Seller of CNG or LNG**

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The Excise Tax Credit available for CNG is \$.55 per DGE (Diesel Gallon Equivalent) or \$.50 per GGE (Gasoline Gallon Equivalent) and \$.85 per DGE (\$.50 per GGE) for LNG. The tax credit is offset by the increase in excise tax provided through the SAFETEA-LU Act.

The table below is a basic display of the excise tax increase as of Oct 1, 2006 and the tax credit. With the increase in the excise tax, LNG and CNG will pay the same rates as other transportation fuels in the Highway Trust Fund, but with the Excise Tax Credit, the CNG and LNG user will receive payment back from the general funds.

<b>Federal Excise Tax and Income Tax Credit \$/GGE (\$DGE)</b>			
<b>Previous</b>		<b>Current As of Oct 1/06</b>	
<b>Fuel Types</b>	<b>Excise Tax</b>	<b>Excise Tax</b>	<b>Credit</b>
CNG	.043 (.067)	.183 (.203)	.50 (.55)
	.043 (.067)	.183 (.203)	.50 (.55)
LNG	.119 (.202)	.243 (.413)	.50 (.85)
	.119 (.202)	.243 (.413)	.50 (.85)

The Provision will be effective as of Oct 1, 2006 and will expire Sept 30, 2009

How to Obtain the Credit:

Taxable Entity:

1. To obtain the fuel Excise Tax Credit, the applicant must first complete Form 637 to register with the IRS.
2. The taxable entity claiming a tax credit must first be claimed as an Excise Tax Credit on Form 720 (Quarterly Federal Excise Tax Return).
3. If there is any excess credit remaining, the credit is taken at the end of the tax year as an Income Tax Credit on Form 4136 (Credit for Federal Tax Paid on Fuel). When the form is submitted, a refund is issued.

Who receives the tax credit?

IRS guidance states that the entity that receives the tax credit is the “alternative fueler”. In other words, the entity that pays the excise tax gets the credit.

Scenario A.

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An end user (fleet) buys natural gas and has it delivered to their site and then compressed by an Operation and Maintenance (O&M) company for an O&M operation fee per DGE or GGE. In this situation, the fleet is considered the seller and will be obligated to pay the excise tax. Therefore, the fleet will receive the tax credit. The fleet will be obligated to fill in Forms 637, 720 and 4136 to receive tax credit.

### Scenario B.

If an O&M company supplies the fuel delivered to the site, then compresses and sells it to the end user (Fleet) in an all inclusive price, then the O&M company is considered the seller. The O&M company would be obligated to pay the excise tax and it would receive the tax credit. The O&M Company will be obligated to fill in Forms 637,720 and 4136 to receive the tax credit.

### Tax Exempt Entity:

Government fleets are exempt from the excise tax but will be able to collect the fuel tax credit. As a tax exempt entity, registration is still required via the completion of Form 637 (Application for registration), to be recognized and be eligible for the tax credit.

### Scenario A

If a government fleet sells fuel to another government fleet then Form 8849 and Schedule 6 need to be completed for the seller to receive the tax credit.

### Scenario B

If a government fleet sells its fuel to a taxable entity, it must also fill out Form 720 with Form 8849 and Schedule 6 to claim the tax credit.

### Who receives the credit?

IRS guidance explains if the delivery of the fuel into a motor vehicle is not part of a "sale", the operator of the motor vehicle is responsible for paying the excise tax.

For further instruction refer to the NGVA ([www.ngvc.org](http://www.ngvc.org)) or the Internal Revenue Service ([www.irs.gov](http://www.irs.gov)).

## **IRS Forms**

### Energy Bill

Alternative Vehicle Credit: Form 8910

<http://www.irs.gov/pub/irs-pdf/f8910.pdf>

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Alternative Fuel Vehicle Refueling Property Credit: Form 8911

<http://www.irs.gov/pub/irs-pdf/f8911.pdf>

Highway Bill (SAFETEA-LU)

Application for Registration: Form 637

<http://www.irs.gov/pub/irs-pdf/f637.pdf>

Quarterly Federal Excise Tax Return: Form 720

<http://www.irs.gov/pub/irs-pdf/f720.pdf>

Form 720 Instructions:

<http://www.irs.gov/pub/irs-pdf/i720.pdf>

Credit for Federal Tax Paid on Fuel: Form 4136

<http://www.irs.gov/pub/irs-pdf/f4136.pdf>

Form 4136 Instructions:

<http://www.irs.gov/pub/irs-pdf/i4136.pdf>

Claim for Refund of Excise Taxes: Form 8849

<http://www.irs.gov/pub/irs-pdf/f8849.pdf>

Form 8849 Schedule 6: Other Claims

<http://www.irs.gov/pub/irs-pdf/f8849s6.pdf>

For further assistances completing these forms, contact the IRS Help Line.

Telephone Assistance for individuals

Toll Free, 1-800-829-1040

Telephone Assistance for businesses

Toll free, 1-800-829 4933

Telephone Assistance for Exempt Organizations

Toll free, 1-877-829-5500

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