

Vehicle Tax Deductions: Overview

Automotive trends are beginning to change. Gas guzzling SUVs are making way for smarter hybrid vehicles. Also called "clean fuel vehicles", these cars and trucks operate on either an electric motor, or a fuel engine and an electric motor. They are wise choices for anyone concerned with preserving our earth's precious resources, and the government is awarding these smart consumers with special tax deductions.

If you have purchased a vehicle that runs on both fuel and electricity, you can claim a one-time deduction of up to \$2,000. Owners of vehicles that operate on electricity only can claim up to \$4,000.

For yours to qualify as clean fuel vehicle, it must run on natural gas, LNG, LPG, Hydrogen or any other fuel that is 85% alcohol or less. You should be cautioned that even though gasoline/electric hybrids use an electric motor, they are not eligible for electric vehicle tax credits.

If your vehicle operates on more than one type of fuel, the cost incurred in converting the car into a proper clean-fuel user may earn you a deduction, subject to the stated limits.

There are other additional requirements to consider. To get a tax credit on your car, you must buy it first-hand and drive it primarily within the USA. The vehicle should have four wheels and is not to be used for commercial purposes. If any of these conditions change within three years of purchasing the vehicle, some of the money you received as tax deduction will have to be reimbursed.

Vehicle donations can also earn healthy tax credits. You may have seen advertisements by charity organizations offering tax breaks for vehicle donations. Technically, this is a valid offer, but there are several things that you need to consider. You cannot state the value of the car you are donating to be a penny more than its current market price. In effect, the deduction will be based upon the same amount that a buyer would pay in the fair market.

The amount of the tax deduction will depend not only on the value of the car, but also how the charitable organization uses it. The organization you donate the vehicle to must also be recognized by tax agencies. As unusual as the situation might be, you will have no idea as to the amount of tax break your donation will fetch you.

If the charity you gave your vehicle to sold it off at a lower price than your stated value, you will receive a tax deduction on the lower amount. On the other hand, if the charity sells your car after using it over a period of time, you need not worry. In this case, the deduction will be based on the value of your car at the time of your donation.

If you're thinking about donating a car to charity, or purchasing a clean fuel vehicle, you will benefit in two ways. You will feel better knowing that you've helped a greater cause, and the government will reward you for making a smart choice.