# Income Tax Topics: Innovative Motor Vehicle Credit

COLORADO
Department of Revenue
Taxation Division

Colorado allows a refundable income tax credit for the purchase or lease of a qualifying motor vehicle. In general, the credit is allowed for new electric, plug-in hybrid electric, and hydrogen fuel cell motor vehicles that are titled and registered in Colorado, although several additional requirements apply. The amount of the credit varies by tax year. A purchaser or lessee of a qualifying motor vehicle can assign the credit to the financing entity or motor vehicle dealer.

This publication is designed to provide general guidance regarding the innovative motor vehicle credit and to supplement guidance provided in the *Colorado Individual Income Tax Guide* and *Colorado Corporate Income Tax Guide*. Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

For information about the innovative truck credit, please see Department publication *Income Tax Topics: Innovative Truck Credit*.

## Eligible purchasers and lessees

Any taxpayer that purchases or leases a qualifying motor vehicle during the tax year can claim the credit. Individuals, estates, trusts, and C corporations may claim a credit with respect to each qualifying motor vehicle they purchase or lease. In the case of a qualifying motor vehicle purchased or leased by a partnership or S corporation, the credit is allowed to its partners or shareholders.

For income tax years commencing on or after January 1, 2024, tax-exempt entities and local governments in Colorado may claim a credit for qualifying motor vehicles they purchase or lease.

Special rules discussed later in this publication apply to qualifying motor vehicles leased by transportation network companies.

## Qualifying motor vehicles

A credit is allowed for the purchase or lease of a qualifying electric or plug-in hybrid electric motor vehicle that meets all of the following requirements:

- It must have four wheels;
- It must have a maximum speed of at least 55 mph;
- It must have a gross vehicle weight rating (GVWR) of 8,500 pounds or less;
- It must be propelled to a significant extent by an electric motor;
- Its battery must be capable of being recharged from an external source of electricity;
- Its battery must have a capacity of at least 4 kWh;
- It must be new at the time of purchase or lease; and
- It must be titled and registered in Colorado.

A credit is also allowed for the purchase or lease of certain hydrogen motor vehicles. The motor vehicle must satisfy all of the requirements listed above, except those requirements relating to the battery, and must instead be powered by one or more hydrogen fuel cells. The hydrogen fuel cell(s) must convert chemical energy directly into electricity by combining oxygen with hydrogen fuel that is stored on board the vehicle in any form.

A light-duty passenger motor vehicle with a GVWR of more than 8,500 pounds may qualify for the innovative truck credit, rather than the innovative motor vehicle credit. For example, if the GVWR for an electric pickup truck is more than 8,500 pounds, it may qualify for the innovative truck credit, rather than the innovative motor vehicle credit. For additional information, please see Department publication *Income Tax Topics: Innovative Truck Credit*.

### New motor vehicles

A credit is allowed only for qualifying motor vehicles that are new at the time of purchase or lease. A motor vehicle is new only the first time it is transferred from a manufacturer or importer, or dealer or agent of a manufacturer or importer, to the end user or customer.

A motor vehicle that has been used by a dealer for the purpose of demonstration to prospective customers is considered new unless such demonstration use has been for more than 1,500 miles.

Any motor vehicle that has been titled or registered or both in Colorado or any other state or jurisdiction prior to purchase or lease is not considered new.

### Titling and registration requirements

A credit is allowed only for motor vehicles that are titled in Colorado and registered by the purchaser or lessee in Colorado. A temporary registration permit issued by the motor vehicle dealer is not sufficient to satisfy the Colorado registration requirement.

A qualifying motor vehicle may be acquired by the purchaser or lessee outside of Colorado, but it will not qualify for a credit if it has been titled or registered or both in any other state prior to being titled and registered in Colorado. If a purchaser or lessee takes possession of a motor vehicle in another state, the issuance of a temporary license plate by that state for the purpose of moving the motor vehicle to Colorado does not constitute registration in that state.

Although a qualifying motor vehicle must be titled and registered in Colorado, the purchaser or lessee does not need to be a Colorado resident. For example, a nonresident military servicemember stationed in Colorado can claim a credit for a qualifying motor vehicle they purchase or lease and title and register in Colorado.

## Nonqualifying motor vehicles

Any motor vehicle that does not meet all applicable requirements does not qualify for the credit. Non-qualifying motor vehicles include, but are not limited to, the following types of motor vehicles:

- Any motor vehicle with fewer than four wheels;
- Any used motor vehicle;
- Any motor vehicle with a maximum speed of less than 55 mph; and
- Any motor vehicle titled or registered or both in another state prior to being titled and registered in Colorado.

## Qualifying leases

If the qualifying motor vehicle is leased, the credit is allowed to the lessee, not the lessor. The lease must be for a term of at least two years. For vehicle and truck leases, early termination of a bona fide lease agreement for a term of at least two years will not abrogate the lessee's right to the credit or require any recapture of the credit previously claimed for the lease. The lessee may elect to assign the credit to a financing entity or motor vehicle dealer, as discussed later in this publication.

## Other credits, grants, and rebates

Qualifying motor vehicles may also be eligible for other credits, grants, and rebates, including federal income tax credits. Any other credit, grant, or rebate allowed to the purchaser or lessee of a qualifying motor vehicle or truck does not affect the purchaser's or lessee's ability to claim the innovative motor vehicle credit.

## Allowable credit amounts

The following table lists allowable credit amounts based on the tax year and whether the qualifying motor vehicle was purchased or leased. For tax year 2023, the allowable credit amount also depends on whether the qualifying motor vehicle was purchased or leased before or after July 1, 2023. For the purpose of determining the allowable credit amount, the purchase or lease generally is not considered complete until the purchaser or lessee takes possession of the motor vehicle.

For fiscal year filers, the tax year is determined by its starting date. For example, a fiscal year beginning July 1, 2023, and ending June 30, 2024, is considered tax year 2023.

### Credits Amounts for Each Tax Year

| *Tax Year* | *Purchase* | *Lease* |
|---|---|---|
| 2022 | $2,500 | $1,500 |
| 2023 (qualifying motor vehicles purchased or leased prior to July 1) | $2,000 | $1,500 |
| 2023 (qualifying motor vehicles purchased or leased on or after July 1) | $5,000 | $5,000 |
| 2024 | $5,000 | $5,000 |
| 2025 | $3,500 | $3,500 |
| 2026 | $750 | $750 |
| 2027 | $2,000 | $2,000 |
| 2028 | $1,000 | $1,000 |

## Manufacturer's suggested retail price limits

No credit is allowed for any motor vehicle purchased or leased after June 30, 2023, that has a manufacturer's suggested retail price (MSRP) greater than the applicable limit shown in the following table.

*MSRP Limits for Credit*

| *Date of purchase or lease* | *MSRP Limit* |
|---|---|
| Before January 1, 2027 | $80,000 |
| On or after January 1, 2027 | $50,000 |

The $80,000 and $50,000 limits apply with respect to the motor vehicle's MSRP and not with respect to the actual price paid by the purchaser or lessee. For the purpose of determining eligibility for the credit, the MSRP includes the following amounts shown on the label the manufacturer has affixed to the windshield or side window of the vehicle pursuant to federal law:

- the retail price of such motor vehicle suggested by the manufacturer; and
- the retail price suggested by the manufacturer for each accessory or item of optional equipment physically attached to such vehicle prior to the sale to the retail purchaser.

The manufacturer's suggested retail price does not include destination charges or optional items added by the dealer, or taxes and fees.

## Additional credits

For tax years commencing on or after January 1, 2024, but prior to January 1, 2029, an additional credit of $2,500 is allowed for any qualifying vehicle that has a manufacturer's suggested retail price (MSRP) under the applicable limit shown in the following table.

***MSRP Limits for Additional Credit***

| *Date of purchase or lease* | *MSRP Limit* |
|---|---|
| Before January 1, 2027 | $35,000 |
| On or after January 1, 2027 | $40,000 |

Eligibility for the additional credit is determined with respect to the motor vehicle's MSRP and not with respect to the actual price paid by the purchaser or lessee. For the purpose of determining eligibility for the additional credit, the MSRP includes the following amounts shown on the label the manufacturer has affixed to the windshield or side window of the vehicle pursuant to federal law:

- the retail price of such motor vehicle suggested by the manufacturer; and
- the retail price suggested by the manufacturer for each accessory or item of optional equipment physically attached to such vehicle prior to the sale to the retail purchaser.

The manufacturer's suggested retail price does not include destination charges or optional items added by the dealer, or taxes and fees.

For tax years commencing on or after January 1, 2024, but prior to January 1, 2026, an additional credit of $600 is allowed if the purchaser or lessee assigns the entire allowable credit to a financing entity or motor vehicle dealer.

## Credits for multiple qualifying motor vehicles

A purchaser or lessee of multiple qualifying motor vehicles may claim credit for each qualifying motor vehicle they purchase or lease. There is no limit on the number of qualifying motor vehicles for which a purchaser or lessee may claim a credit. No more than one credit may be claimed for any particular motor vehicle.

## Transportation network companies

For tax years commencing on or after January 1, 2019, special rules apply to the long-term lease of a qualifying motor vehicle by a transportation network company ("TNC") or a third-party vehicle supplier that contracts with a TNC. The lease is treated as the purchase of the vehicle for the purpose of determining the allowable credit if all of the following conditions are met:

- The TNC or third-party vehicle supplier leases a qualifying motor vehicle;
- The lease term is at least two years; and
- The TNC or third-party vehicle supplier offers the qualifying motor vehicle to TNC drivers for short-term rental periods of no more than 60 days.

Information about TNCs can be found online at *PUC.Colorado.gov/tnc*.

## Credit assignment

A purchaser or lessee may assign the allowable credit, including both the base credit and any additional credit, to a motor vehicle dealer or financing entity who accepts assignment of the credit (the "assignee"). The assignment must be completed at the time of purchase or lease by executing the required election statement. The assignee must compensate the motor vehicle purchaser or lessee for the assigned credit. A purchaser or lessee who assigns the credit forfeits the right to claim the credit on the purchaser's or lessee's income tax return. The purchaser or lessee must title and register the motor vehicle in Colorado as required by state law.

The amount of the credit is determined by the tax year in which the qualifying motor vehicle is purchased or leased. For the purpose of determining the allowable credit amount, the purchase or lease generally is not considered complete until the purchaser or lessee takes possession of the motor vehicle.

## Compensation for credit assignment

The assignee must compensate the motor vehicle purchaser or lessee for the full amount of the assigned credit, including both base credit and any additional credit. Such compensation must be made effective on the date the election statement to assign the credit is executed and not applied at any subsequent date. Compensation must be made in the form of a cash payment, a reduction in cash price, a capitalized cost reduction, or some similar consideration and the amount of the compensation must be separately stated in the purchase, lease, or loan agreement. The assignee may deduct an administrative fee from the compensation provided to the purchaser or lessee for the assignment of the credit, but the fee cannot exceed $250. Prior to January 1, 2024, the maximum allowable administrative fee the assignee could deduct was $150.

## Election statement

The motor vehicle purchaser or lessee and the assignee must complete and sign an *Innovative Motor Vehicle Tax Credit – Election Statement* (DR 0618) to assign the credit. The election statement must be completed at the time of the purchase or lease. A separate election statement must be completed for each assigned credit. The assignee may authorize an agent or designee to sign the election statement on its behalf to facilitate the assignment of the credit.

## Quarterly reporting

On a quarterly basis, assignees must electronically submit the information contained in the election statement to the Department. The assignee must register with the Department prior to filing the required quarterly reports.

### *Registration*

An assignee must register with the Department through its *Revenue Online* account to file quarterly reports. The registration must be made under the appropriate account, for a parent corporation for example, as described below.

If the assignee does not have a Revenue Online account, it must first create an account. An assignee with an active Revenue Online account should see an option to "Register to Submit an Innovative Motor Vehicle Credit" within their income tax account. One or two days after selecting this option and completing the required steps, the assignee should see an option to "Submit an Innovative Motor Vehicle Credit File" on their Revenue Online income tax account.

### Affiliated corporations

An assignee that is an affiliated corporation included in a combined or consolidated return must register under the account for the parent corporation or the filing member if the common parent is not the filing member.

### Partnerships and S corporations

An assignee that is a partnership or S corporation, must register under the account for the partnership or S corporation.

### Disregarded entities

An assignee that is, for federal income tax purposes, disregarded as an entity separate from its owner, such as a single-member LLC that has not elected to be classified as an association, must register under the account of the member or owner.

### *Filing quarterly reports*

Assignees must file their quarterly reports through the Department's website at *Colorado.gov/RevenueOnline* under the account registered as described earlier in this publication. Assignees can either manually enter the information from an election statement or upload an electronic file with information from one or more election statements. The Approved File Format for Electronic Submissions can be accessed online at *Tax.Colorado.gov/DR0618*.

Assignees must file their quarterly reports in accordance with the reporting schedules indicated in the following tables. The first table shows the reporting schedule for calendar year taxpayers whose tax year runs from January through December. The second table shows the reporting schedule for fiscal year filers whose tax year begins and ends in any other months. In addition to their four quarterly reports, assignees must file a final report, as discussed later in this publication.

#### Reporting Schedule for Calendar Year Filers

| *Quarter* | *Included Months* | *Due Date* |
|---|---|---|
| First | January, February, and March | April 15th |
| Second | April and May | June 15th |
| Third | June, July, and August | Sept. 15th |
| Fourth | September, October, and Nov. | Dec. 15th |

#### Reporting Schedule for Fiscal Year Filers

| *Quarter* | *Included Months* | *Due Date* |
|---|---|---|
| First | 1st, 2nd, and 3rd | 15th day of 4th month |
| Second | 4th and 5th | 15th day of 6th month |
| Third | 6th, 7th, and 8th | 15th day of 9th month |
| Fourth | 9th, 10th, and 11th | 15th day of 12th month |

### Final report

The assignee must file a separate final electronic report that includes any credits assigned during the 12th month of the assignee's tax year (December for calendar year filers). Assignees must also include in the report any credits assigned during any prior month in the assignee's tax year but not included in any electronic quarterly report filed for the first, second, third, or fourth quarter of the assignee's tax year. The assignee must file the final report by the due date for the assignee's income tax return, determined without regard to any extensions. The final report must be filed before the assignee files their income tax return for the tax year.

### Failure to submit required reports timely

If the assignee fails to include any assigned credit in a timely filed quarterly electronic report, the assignee must include that assigned credit in a quarterly electronic report timely filed for a subsequent quarter within the same tax year. Any assigned credit not included in any quarterly electronic report must be included in the assignee's final report.

### Reporting corrections

Assignees must electronically report any necessary corrections to previously reported assigned credits, including, but not limited to, a vehicle returned to the dealer by the purchaser.

## Annual income tax return

Assignees must file a Colorado income tax return for any tax year in which they accept assignment of a credit. The assignee must file an *Assigned Innovative Motor Vehicle and Truck Credits and Electric Bicycle Credit Reconciliation Schedule* (DR 0619) with their return. Assignees must file a Colorado income tax return with form DR 0619 regardless of whether they requested and received advance payment for any or all of the assigned credit.

## Credits assigned to pass-through entities

For tax years commencing on or after January 1, 2024, a partnership or S corporation must claim any credit assigned to it. For tax years commencing on or after January 1, 2025, the partnership or S corporation may request advance payment, as described later in this publication. Partners and shareholders cannot claim, or request advance payment for, any credit assigned to the partnership or S corporation.

The partnership or S corporation must file *form DR 0619* with its return and reconcile any difference between the allowable credit and any amount previously requested and received by the partnership or S corporation as an advance payment. Please see the discussion of advance payments later in this publication for additional information.

## Disallowed credits

The Department will disallow a credit claimed by an assignee if the Department determines that the applicable requirements were not met or the credit was otherwise claimed in error. The Department will issue notice of the disallowance to the assignee. The assignee will be liable for any resulting underpayment of tax, and any refund claimed by the assignee will be appropriately reduced or disallowed, regardless of whether the assignee recovers any part of the compensation the assignee provided to the purchaser.

## Advance payment

For income tax years commencing on or after January 1, 2025, an assignee may request advance payment of assigned credits on a quarterly basis. Assignees may request advance payment only when submitting their quarterly reports through *Revenue Online*, as discussed earlier in this publication. Assignees may not request advance payment with the final report filed for their tax year.

An assignee is not required to request advance payment for all credits assigned to them during the quarter. Any allowable credit for which the assignee does not request advance payment will be applied toward the assignee's tax liability when the assignee files their annual income tax return. Accordingly, assignees may consider the amount of such credit when determining the quarterly estimated payments they must remit, if any, during the tax year. If the available credit exceeds the assignee's tax liability, the excess will be refunded to the assignee.

If the aggregate amount of advance payments made for the tax year exceeds the amount of the credit allowed to the assignee, the assignee must report the difference as a recaptured credit amount on *form DR 0619*.

### *Protest Rights*

An assignee cannot protest or request a hearing with respect to any adjustments the Department makes to an advance payment request. An assignee does not have protest rights until it files its income tax return claiming the credit. An assignee that has filed its income tax return may file a protest or request for hearing if the claim for an applicable credit is rejected. Please visit *Tax.Colorado.gov/taxation-disputes* for additional information.

## Claiming the credit

A purchaser or lessee who has not assigned the credit must file a Colorado income tax return to claim the credit. The credit may be claimed only on the return filed for the tax year in which the purchaser or lessee purchased or leased the qualifying motor vehicle. In general, the purchase or lease is not considered complete until the purchaser or lessee takes possession of the motor vehicle.

A purchaser or lessee who is claiming the credit must submit with their return:

- a completed *form DR 0617*;
- a copy of the permanent Colorado Vehicle Registration; and
- a copy of the vehicle invoice, purchase agreement, or lease agreement.

A purchaser or lessee cannot claim a credit for a vehicle with an active temporary registration. A purchaser or lessee can file their return claiming the credit only after they have received a permanent Colorado Vehicle Registration from the county motor vehicle office.

If the allowable credit exceeds the taxpayer's tax liability for the tax year, the excess credit will be refunded to the taxpayer.

A purchaser or lessee who assigns the credit is not required to complete form DR 0617 or file a Colorado income tax return to claim the credit. For example, a local government that assigns the credit for the purchase of qualifying motor vehicle is not required to file a Colorado income tax return to claim the credit.

## Sales tax

Colorado state and state-administered local sales taxes are imposed on the full purchase price of any taxable item, including motor vehicles and trucks. The tax is calculated on the full purchase price, before reduction for any rebates or credits allowed to the purchaser or lessee, including the innovative motor vehicle credit and rebates paid through Colorado's Vehicle Exchange (VXC) Program.

The compensation provided by an assignee to the purchaser or lessee for the assignment of the credit does not affect the taxable purchase price. The applicable sales tax is calculated on the full purchase price without reduction for the compensation provided by the assignee to the purchaser or lessee.

Please see Part 3 of the *Colorado Sales Tax Guide* for additional information regarding Colorado sales taxes and the taxable purchase price.

## Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to the innovative motor vehicle credit. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

### Statutes and regulations

- § 39-22-516.7. Tax credit for innovative motor vehicles - definitions - repeal.
- § 39-22-629. Advance payments of income tax credits - definitions.
- Rule 39-22-516. Innovative Motor Vehicle and Innovative Truck Credits.
- Rule 39-22-629. Advance Payments of Income Tax Credits.

### Forms and guidance

- *Tax.Colorado.gov*
- *Colorado Individual Income Tax Guide*
- *Colorado Corporate Income Tax Guide*
- *Income Tax Topics: Innovative Truck Credit*
- *Innovative Motor Vehicle and Innovative Truck Credit for a Vehicle You Purchased or Leased* (DR 0617)
- *Innovative Motor Vehicle Tax Credit – Election Statement* (DR 0618)
- *Assigned Innovative Motor Vehicle and Truck Credits and Electric Bicycle Credit Reconciliation Schedule* (DR 0619)