

Additional tax incentives are available to purchasers of various fuel-efficient and environmentally friendly vehicles. The tax benefits of buying an alternative fuel vehicle is not the subject of this letter. Rather, this letter is intended to address the tax incentives for the purchase of QAFV *refueling property*. As discussed below, this property generally includes the tanks and pumps used to store and dispense an alternative fuel. Property that is used for both conventional and alternative fuel (i.e. "dual-use property") may qualify for the credit to the extent additional costs are incurred for the alternative fuel capability.

A tax credit is usually more advantageous than a deduction because a tax credit is subtracted dollar-for-dollar off the bottom line of your federal tax bill, while a deduction simply reduces taxable income.

QAFV refueling property is property used for the storage or dispensing of alternative fuel into the fuel tank of a motor vehicle propelled by that fuel. Effectively, this means fuel tanks and pumps used to dispense alternative fuels into vehicles. For this purpose, a fuel is an alternative fuel if (1) at least 85% of its volume consists of one or more of the following: compressed natural gas, liquefied natural gas, liquefied petroleum gas, natural gas, hydrogen, and ethanol, or (2) the fuel is a qualifying mixture of biodiesel, diesel fuel, or kerosene.

A purchaser (taxpayer) is allowed a tax credit against his income tax equal to 30% of the cost of any QAFV refueling property that he places in service during the tax year at a location. The credit allowed for QAFV refueling property that he places in service can be as much as \$30,000 in the case of property used in a business (depreciable property), or \$1,000, for QAFV refueling property installed at the taxpayer's principal residence. Thus, if a taxpayer installs depreciable QAFV refueling property at more than one location, up to \$30,000 of the cost of that property is eligible for the credit at each location.

There are complex rules (including the rules issued by the IRS) regarding dual-use property and property converted from conventional fuel uses.

If you wish to receive the credit, you must be the original user of the property, and you can't have acquired the property for the purpose of reselling it.

Your "basis" (i.e. cost for tax purposes) in the property is reduced by the amount of the credit. This reduction may create or increase taxable gain when you dispose of the property (and, if the property is used in a business, decrease your depreciation deductions).

The tax credit must be "recaptured" (i.e., in essence, be given back) if the property no longer meets the requirements for the credit.

For businesses taking these tax credits, the tax credits are treated as part of the general business credit, which means the credit is subject to the general business credit limitations, but also the carryback and carryforward rules, which can be advantageous.

In addition, you can't take this credit if you use Sec. 179 expensing for the property, or if the property is used primarily outside the U.S.

You should also be aware that exposure to the alternative minimum tax (AMT) may cause the benefit of the credit to be deferred to a future tax year, causing a reduction in the credit's value. We should consider whether the AMT is likely to adversely affect you in

this way (and, if necessary, consider ways we can plan some of your other activities in order to prevent the AMT from being a problem).

Also, because you can elect *not* to take the credit, we should—if you decide to still purchase the alternative fuel vehicle refueling property—decide whether you are one of the few for whom it is better not to take the credit.