

Deduction for Hybrid Vehicles

If you are the original owner of a qualifying hybrid vehicle — one that combines an electric motor with a gasoline-powered engine — you may be eligible to claim a one-time tax deduction on your federal income tax return.

The deduction amount is limited to \$2,000 for cars first put into use in 2005. These vehicles qualify for the deduction:

1. Ford Escape Hybrid — Model Year 2006
2. Mercury Mariner Hybrid — Model Year 2006
3. Lexus RX 400h — Model Year 2006
4. Ford Escape Hybrid — Model Year 2005
5. Toyota Prius — Model Years 2001 through 2006
6. Toyota Highlander Hybrid — Model Year 2006
7. Honda Insight — Model Years 2000 through 2005
8. Honda Civic Hybrid — Model Years 2003 and 2005
9. Honda Accord Hybrid — Model Year 2005

The \$2,000 deduction must be taken for the year in which the vehicle was first used and applies to tax years 2005 and earlier. This benefit is taken as an adjustment to income. You do not have to itemize deductions on your tax return to claim it, but you do have to use Form 1040. Include your deduction on the dotted line to the left of line 36 of the 2005 Form 1040, and identify it as “Clean-Fuel.”

Starting in 2006 the deduction is replaced with a credit, which will require a different certification. The tax credit for hybrid vehicles applies to vehicles purchased on or after January 1, 2006.

For more information on the clean fuel deduction, see IRS Publication 535, Business Expenses. Hybrid vehicles do not have to be owned or used by businesses to qualify for the deduction — individual taxpayers may also take the deduction. Publication 535 is available at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).