

I have a client who just bought a 2008 Honda Civic Hybrid for \$22,600. It cost \$3,465 more than the regular Honda Civic (\$19,135). Was it a good move to buy the hybrid rather than the regular Civic?

Buying the hybrid Civic results in:

- A. A \$2,100 federal tax credit
- B. A \$2,599 Colorado tax credit

This total of \$4,699 of tax credits exceeds the extra cost of the hybrid by \$1,234. Then there is the annual fuel savings besides. This sounds like a great deal -- for the right taxpayers.

This might fit nicely into some year-end tax planning for certain clients. Some caveats:

1. This works best for Colorado residents, because the Colorado credit tends to be bigger than the federal credit.
2. Colorado residents who don't pay much state tax -- like many retired taxpayers (due to the State pension and annuity exclusion), and like many ministers who have no income tax -- may not benefit from the State credit. However, the State credit does carry forward indefinitely.
3. The federal credit does not carry forward at all. If there is no federal income tax for the year, the federal credit is lost completely.
4. Clients whose income is "too high" will not benefit from the federal credit. The federal credit is lost for those clients subject to AMT.
5. These credits do not work so well for a Prius or other Toyota hybrid, because the federal credit on those has been phased out. The State credit, however, still applies.
6. The State and Federal credits vary considerably from one hybrid to another.
7. The Colorado State credit for buying a hybrid gets increased if the buyer concurrently permanently removes from Colorado roadways a vehicle that is 10 years old or older, by selling to a salvage yard or an out-of-state buyer.
8. The credits only apply to the original buyer. In other words, it has to be a new car, as opposed to a used car.

Conclusion: With certain exceptions (see points 1 - 8 above), "everyone" considering the purchase of a 'regular' Honda Civic should buy a Civic hybrid instead.

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