

Should I Buy a Hybrid

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A car salesman told my client that if she purchased the Honda Accord Hybrid instead of a new Honda Accord, she would recoup the additional sticker price by the end of the year. She asked me how this worked. I explained that he was probably referring to the **Alternative Motor Vehicle Credit** and for the Accord Hybrid AT w/updated calibration that amount is \$1,300.

The difference between the sticker of the 2006 Honda Accord Hybrid and the 2006 Honda Accord is \$3,700, so **the salesman is assuming** her tax situation is such that she will be able to claim the credit AND that she will save \$2,400 in gas between now and the end of the year. That equates to a monthly gas savings of \$200.

I summarized some of the more relevant information, assuming that she would trade-in her car, in the following table:

	1999 Honda Accord (currently owns)	2006 Honda Accord Hybrid	2006 Honda Accord	2006 Honda Civic
Miles Per Gallon Estimate	25	30	25	35
Miles Driven Per Year	18,000	18,000	18,000	18,000
MSRP (approximate sticker)	Trade-In Value: \$4,000	\$31,000	\$27,300	\$17,500
Approximate Loan (incl. Fees, taxes, title & license)	\$0	\$31,000	\$27,000	\$15,500
Monthly Loan Payment (5% over 60 months)	\$0	\$585	\$510	\$293

	1999 Honda Accord (currently owns)	2006 Honda Accord Hybrid	2006 Honda Accord	2006 Honda Civic
Monthly Gas Savings (assuming gas = \$3/gallon)	N/A	\$30	\$0	\$51
Net Monthly Savings	N/A	\$(555)	\$(510)	\$(242)
Tax Credit	N/A	\$1,300	N/A	N/A
Net Savings by 12-31 assuming gas = \$3/gallon	N/A	\$(1,325)	\$(2,550)	\$(955)

As you can see I added in the Honda Civic (regular gas version) for good measure.

Excluded from the above table are the annual maintenance costs of the different vehicles, the respective long term values of all the vehicles and the driver's personal preferences, all of which are factors to be considered, when purchasing a car.

The table shows that there is no way my client is going to recoup the difference in the sticker price by the end of the year. **If fact, my client would have to drive 10,000 miles per month to see a \$200/month savings in gas.** And she will have to incur the additional monthly cash outlay for her new loan, which was never considered by the salesman.

If my client is serious about saving money, and wants to buy a Honda, she should consider the 2006 Honda Civic.

If her personal preferences tell her that she'll be more comfortable in an Accord her monthly payments will be about \$45 less than the Hybrid version, but she will not be eligible for the Alternative Motor Vehicle Credit.

Even if she does purchase a Hybrid vehicle, although she may be eligible to receive the Alternative Motor Vehicle Credit, depending on the rest of her tax situation she may not be able to claim it. This is often true with tax deductions and credits - something that salesmen never seem to mention when they are trying to sell you something.

The credit does reduce your regular income tax liability, but not below zero. If you are eligible for multiple tax credits, the hybrid vehicle credit is taken last after all the other credits (child care tax credit, retirement savings credit, etc.) have been taken. Any tax liability left over by these reductions will be the maximum dollar limit of your hybrid vehicle credit.

If your hybrid vehicle credit exceeds your maximum dollar limit, the excess is not refundable, and is lost forever. And any amount of credit actually received may have to be recaptured if you sell your hybrid before the end of its useful life.

I've only discussed the Honda Accord Hybrid and how that compares to the Honda Accord and Honda Civic; however, **the Alternative Motor Vehicle Credit is available, in different amounts, for many different vehicles - including a truck!** Hybrid vehicles are trendy and environmentally friendly, but they may not be as economical as you think. To read more on the Alternative Motor Vehicle Credit visit the [IRS](#).

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.