

This document has been prepared as part of the Model Climate Laws Initiative, formerly the Legal Pathways to Deep Decarbonization Project (Michael B. Gerrard and John C. Dernbach, eds. Environmental Law Institute [2019]) (LPDD). For more information, see modelclimatelaws.org.

MODEL STATE LAW FOR CORPORATE TAX CREDITS FOR ADVANCED FREIGHT VEHICLES

I. SHORT TITLE

This Act may be cited as the “Clean Freight Vehicle Tax Credit Act.”

II. LEGISLATIVE FINDINGS

The Legislature finds and declares that the transportation sector is one of the State’s largest sources of greenhouse gas and other air pollution emissions.¹ Heavy-duty freight trucks and delivery vehicles contribute disproportionately to smog and other harmful impacts of air pollution, especially in nonattainment areas and disadvantaged communities, and to climate change. Advanced technology freight vehicles – including zero-emission vehicles (ZEVs) such as battery-electric and hydrogen fuel cell trucks, and near-zero-emission vehicles (NZEVs) such as hybrid-electric and natural gas trucks – have dramatically lowered tailpipe emissions of greenhouse gases and other air pollutants.² For example, zero-emission and plug-in hybrid vehicles have “ultra-low smog-forming and GHG pollutants” compared to conventional trucks. Federal policy previously provided commercial clean vehicle tax credits to defray incremental costs,³ and the State’s adoption of a complementary corporate tax credit will help address the gap created by the termination of the federal credit and accelerate fleet electrification and advance public health. It is in the public interest to incentivize the acquisition of advanced technology freight vehicles and ensure the State’s standards are aligned with any future federal programs.

III. DEFINITIONS

In this Act:

- a. **“Advanced technology freight vehicle”** means any freight vehicle that is either: (1) a *zero-emission freight vehicle (ZEV)* – a vehicle that produces no exhaust emissions of air pollutants (examples include battery-electric trucks and hydrogen fuel-cell trucks); or (2) a *near-zero-emission freight vehicle (NZEV)* – a vehicle that is not a ZEV but (i) uses plug-in hybrid electric propulsion, or (ii) is certified to ultra-low NOx levels (e.g., 0.02 g/bhp-hr on the FTP or any successor test cycle) or to an equivalent federal or state standard; and is certified by the manufacturer, or by an independent engineer acceptable to the [State Department of Revenue], to substantially reduce air pollutants compared to a comparable gasoline or diesel vehicle. The Department, in consultation with the State environmental

¹ See U.S. Environmental Protection Agency, “Sources of Greenhouse Gas Emission,” March 31, 2025, at <https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions>.

² See International Council on Clean Transportation, “Transitioning to Zero-Emission Heavy-Duty Freight Vehicles,” September 2017, at https://theicct.org/sites/default/files/publications/Zero-emission-freight-trucks_ICCT-white-paper_26092017_vF.pdf.

³ See the Clean Vehicle Provisions in the Inflation Reduction Act, at <https://www.irs.gov/credits-deductions/commercial-clean-vehicle-credit>.



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agency, shall publish and periodically update a non-exclusive list of standards deemed “equivalent” for purposes of the NZEV definition.

- b. **“Freight vehicle”** means an automobile that contains a cargo carrying compartment, work performing compartment, or cargo bed, has a gross vehicle weight rating over 14,000 pounds, and complies with the fuel consumption standards set forth in 49 CFR 535.5(a).⁴
- c. **“Incremental cost”** means the excess of the purchase price of an advanced technology freight vehicle over the purchase price of a comparable diesel or gasoline vehicle used for the same freight application.
- d. **“Qualified taxpayer”** means any corporation, partnership, S corporation, sole proprietorship, or other business entity subject to [State] corporate income or franchise tax, which owns or leases one or more commercial freight vehicles.
- e. **“Placement in service”** means the date on which the taxpayer first uses a qualifying vehicle in its trade or business.
- f. **“Qualifying Vehicle”** means an advanced technology freight vehicle that meets the requirements of Article IV of this Act.

IV. TAX CREDIT AUTHORIZED

- a. For taxable years beginning on or after [January 1, 20XX], each qualified taxpayer shall be allowed a credit against the tax imposed by [State Tax Code section for corporations] for each advanced technology freight vehicle that it places in service during the taxable year. The credit shall apply only to vehicles purchased new by the taxpayer and used primarily in the taxpayer’s business of transporting or delivering freight. A taxpayer may claim a credit under this section in addition to any federal credit and any state or local grant or voucher, provided that the aggregate amount of public incentives for the vehicle does not exceed the vehicle’s incremental cost. The [Department/Secretary] may issue regulations to prevent duplicative benefits for the same costs and to coordinate with federal rules.
- b. The eligible vehicle must be certified by the manufacturer (or an independent engineer) to meet the definition of an advanced technology freight vehicle in Section 3. The vehicle must be used principally within [State] to transport freight and must be registered as a commercial vehicle.
- c. A taxpayer may claim a credit for each qualifying vehicle placed in service during the taxable year. The credit is allowed only once per qualifying vehicle and is claimed in the year the vehicle is first placed in service.
- d. Availability of the credit under this Act does not depend on whether a federal clean-vehicle credit is available for the vehicle.

⁴ See 49 CFR 523, at <https://www.ecfr.gov/current/title-49/subtitle-B/chapter-V/part-523>.



V. CREDIT AMOUNT AND LIMITATIONS

- a. The credit for each qualifying vehicle shall be calculated as follows:
 - i. *Zero-Emission Freight Vehicles*: 30% of the vehicle's incremental cost, not to exceed \$40,000 per vehicle.
 - ii. *Near-Zero Freight Vehicles*: 15% of the vehicle's incremental cost, not to exceed \$20,000 per vehicle.
- b. In no event shall the credit for a qualifying vehicle exceed the caps in paragraphs (V)(a)(i)-(ii).
- c. If a qualifying vehicle qualifies as both a zero-emission and near-zero-emission vehicle, the higher (30%) rate applies. Incremental cost shall be documented by the taxpayer.
- d. A taxpayer may claim a credit under this section in addition to any federal clean-vehicle credit and any state or local grant or voucher, provided that the aggregate amount of public incentives with respect to the vehicle does not exceed the vehicle's incremental cost. The taxpayer shall disclose to the Department all such incentives claimed and any related basis reductions. If public incentives would otherwise exceed incremental cost, the credit allowed under this section shall be reduced accordingly.⁵
- e. For a taxpayer organized as an S corporation⁶ or partnership, any credit earned under this Act by the entity shall be allocated pro rata to shareholders or partners in proportion to their ownership interest.⁷
- f. The credit allowed under this Act shall not reduce tax liability below zero. Any unused portion of credit may be carried forward and applied against tax in the next five succeeding taxable years.⁸ No carryback is permitted.

VI. DOCUMENTATION, VERIFICATION, AND COMPLIANCE

- a. To claim the credit, the taxpayer must maintain records demonstrating each vehicle's purchase price, incremental cost, and qualification as an advanced technology freight vehicle (including manufacturer certifications and emissions ratings). The incremental cost of a qualified vehicle is the excess of the purchase price of such vehicle over the price of a comparable vehicle. A comparable vehicle with respect to any qualified vehicle is any vehicle that is powered solely by a gasoline or diesel internal combustion engine and is comparable in size and use to such qualified vehicle. The taxpayer must also document that each vehicle is used in a commercial freight operation.
- b. The [State Department of Revenue], in consultation with the [State environmental agency], may promulgate rules for verifying eligibility. The Department may (i) require taxpayers

⁵ Internal reference: Such as 26 U.S. Code § 30D - Clean vehicle credit or 26 U.S. Code § 45W - Credit for qualified commercial clean vehicles.

⁶ As defined in 26 U.S. Code § 1361.

⁷ Internal: Virginia Code Title 58.1. Taxation § 58.1-432 | FindLaw

⁸ Internal: Virginia Code Title 58.1. Taxation § 58.1-432 | FindLaw



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to submit documentation to claim the credit, (ii) specify the documentation to be submitted, and (iii) audit any claim.

- c. If within five (5) years after placement in service the vehicle is sold, removed from service in the State, or ceases to be a qualifying vehicle (including, without limitation, if the vehicle is converted or its emissions characteristics are altered), the following portion of the credit is recaptured in the year of the event: 100% (year 1), 80% (year 2), 60% (year 3), 40% (year 4), 20% (year 5).
- d. Any misstatement of material fact or fraud in claiming the credit shall subject the taxpayer to penalties and interest as provided by [State tax enforcement provisions].

VII. PROGRAM EVALUATION AND REPORTING

The [State Department of Revenue] shall compile annual reports to the Legislature detailing the number and total value of credits claimed under this Act and the types of vehicles purchased. In consultation with the [State environmental/air quality agency and/or transportation agency], the report shall also estimate the aggregate emissions reductions achieved by the credited fleet purchases. This report shall be delivered by [date] each year, to inform evaluation of the program's effectiveness.

VIII. RULEMAKING AUTHORITY

The [State Department of Revenue], in consultation with the [State environmental agency /air quality or transportation agency], may adopt regulations to implement and administer this Act, including but not limited to forms, verification procedures, and enforcement provisions, consistent with the purpose of promoting advanced technology freight vehicles.

IX. EFFECTIVE DATE

This Act shall take effect on January 1, 20XX and shall apply to taxable years beginning on or after that date.