

Hybrid Cars, Financial Sense?

By: Mark Allen

Hybrid Cars make excellent ecological and political sense. They use much less gas than their 100% gas counter parts. This is both good for our environment and reducing our country's reliance on foreign oil. But is this good for your pocket book?

In most cases Hybrid cars cost anywhere from 15% to 25% more than 100% gas models. Financially, the purchase price must be compared to the decrease in gasoline expenses. For this example the Toyota Camry LE (100% gas) versus the Toyota Camry Hybrid was used. The Manufacturer's Suggested Retail Price (MSRP) and Miles Per Gallon (MPG) ratings were provided on their website (www.toyota.com).

	Gas Car	Hybrid Car	Difference
Car	Camry LE	Camry Hybrid	
MSRP	\$20,025	\$25,200	\$5,175
City	21	33	12
Highway	31	34	3
Average	26	33.5	7.5

Table 1: Toyota Camry LE Vs. Toyota Camry Hybrid

In this case you can see there is a \$5,175 difference in price. It would take a lot of miles and very expensive gas prices to make up \$5,175 over the life of a vehicle. Tax incentives can help this differential, provided they are still available.

Currently our Federal tax law provides a tax credit of up to \$3,000 per Hybrid or Electric Car purchased and placed into service in 2007 (IRC Sec 30B). The credit amount is determined by the specific car and how many the manufacturer has sold. The credit is phased out after the manufacturer has sold 60,000 units. A current list of the vehicles and their associated credit amounts can be found at <http://www.irs.gov/newsroom/article/0,,id=157632,00.html>. Unfortunately, this credit cannot reduce Alternative Minimum Tax (AMT). If you currently pay AMT tax there is no tax credit available to you.

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California does not conform to federal tax rules, so there is no tax benefit for residents of California.

Below, the table shows where a break even occurs using the two cars mentioned above. It was assumed that the average car is used 7 years. Annual savings is the amount that would be saved by driving a Hybrid car vs. a 100% Gas Car assuming the miles driven per year listed in each of the three categories. The life savings takes the annual savings and multiplies it by 7 years. The pink areas indicate you would be better off purchasing a 100% gas car. The green areas indicate you would be better off using a Hybrid car. Notice that at 20,000 miles a year with gas prices at \$5.00 per gallon it would make financial sense to purchase a Hybrid car. Most consumers drive between 12,000 and 18,000 miles per year where the results are much worse.

\$\$\$ Per Gallon	15,000 Miles / Year		20,000 Miles / Year	
	Annual	Life Savings	Annual	Life Savings
	Savings	Over 7 Years	Savings	Over 7 Years
\$2.50	\$323	\$2,260	\$431	\$3,014
\$3.00	\$387	\$2,712	\$517	\$3,617
\$3.50	\$452	\$3,164	\$603	\$4,219
\$5.00	\$646	\$4,521	\$861	\$6,028
\$6.50	\$840	\$5,877	\$1,119	\$7,836
\$8.00	\$1,033	\$7,233	\$1,378	\$9,644

Table 2: Breakeven Chart (tax savings inclusive of results)

If you are a strict environmentalist and you believe consumers should pay the real price for goods (i.e. pay the environmental impact cost in addition to production costs), then a Hybrid car may well be worth the purchase price. But I suspect most Americans are more concerned with the cost of filling their gas tanks. If that is true for you, it may be worth your while to analyze your purchase with closer attention to the financial bottom line. To help you out we have placed an Excel sheet calculator on our website that can be downloaded and used to determine what makes sense for you. Just follow the instructions listed on the excel worksheet. (web site - <http://www.allentaxes.com/id12.html>)

Since the Hybrid car market is relatively new the financial sense of purchasing one may change. With increased demand the auto manufacturers will most likely produce more Hybrid cars and reduce their prices further. This should move the breakeven point in my calculator from \$6.50 - \$8.00 per gallon down to \$3.00 - \$4.00 per gallon.

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