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Internal Revenue Service
U.S. Department of the Treasury
Room 5203, P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Re: Submission of comments in response to IRS Notice 2022-56
Docket: IRS-2022-0027-0001

The American Car Rental Association (ACRA) is pleased to submit comments in response to a request for comments in Notice 2022-56 (the “Notice”) regarding the new Qualified Commercial Clean Vehicles tax credit (the “Sec. 45W tax credit”) enacted in the Inflation Reduction Act of 2022.

ACRA is the national representative for over 98 percent of our nation’s vehicle rental industry. Our membership comprises over 200 companies, including recognizable brands such as Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, Payless, Sixt and Thrifty. Our members also include mid-size, regional, and independent car rental companies as well as smaller, “mom & pop” operators. Our members have over 1.7 million registered vehicles in service in the United States.

Our members are among the largest commercial vehicle purchasers in the United States. Vehicle rental fleets mirror the evolving automotive manufacturing industry; an increasing percentage of our new fleet purchases are battery electric or hybrid vehicles. The Sec. 45W tax credit will be instrumental in assisting our members in their efforts to increase the size of their “green fleets.”

With respect to each vehicle, the Sec. 45W tax credit is equal to the lesser of (1) 15 percent of the basis of the qualified commercial clean vehicle (30 percent if the vehicle is not powered by a gasoline or diesel engine) or (2) the “incremental cost” of the vehicle.¹ The term “incremental cost” is defined as “the excess of the purchase price for such vehicle over such price of a comparable vehicle.”

Our comments focus on two key issues with respect to which clarification would significantly enhance the utilization and verification of the credit amount (and

¹ Certain dollar limits are imposed on the allowable credit amount depending on the gross vehicle weight rating of the vehicle.

consequently the administration of the Sec. 45W tax credit). The first relates to the definition of a “comparable vehicle.” The second relates to the “purchase price” of an acquired commercial clean vehicle and, similarly, of a comparable vehicle. While these terms may be straightforward to apply in the context of the acquisition of a single vehicle (or a limited number of vehicles) for commercial acquisitions, this task becomes more challenging when the acquisition involves hundreds or thousands of vehicles, particularly if the overall purchase price reflects certain quantity pricing adjustments. The “comparable vehicle” comparison presents additional challenges as it requires the application of a quantity pricing adjustment with respect to hypothetical large quantity acquisitions. To facilitate the correct application (and improve the administrability) of the Sec. 45W tax credit, ACRA is requesting that each definition include a “safe harbor” that large quantity commercial purchasers can apply to determine the price of both the purchased vehicles and identified comparable vehicles.

Our comments below respond to some of the specific questions identified in Section 3.01 in the sequential order in which they appear.

Questions Raised in the Notice

Question (1): Comparable Vehicle definition for purposes of calculating incremental cost

The Sec. 45W tax credit defines a comparable vehicle as “any vehicle which is powered solely by a gasoline or diesel internal combustion engine, and which is comparable in size and use to [the commercial clean vehicle].” A vehicle’s “incremental cost” within the meaning of Sec. 45W(b)(2) refers to “the excess of the purchase price for such vehicle over such price of a comparable vehicle.”

Although taxpayers should be free to determine whether a vehicle is “comparable in size and use,” ACRA recommends that the IRS provide an elective safe-harbor method for those taxpayers who wish to simplify their calculations. One potential approach could be based on data such as Standard Interline Passenger Procedure (“SIPP”) codes.

SIPP codes were developed by the Association of Car Rental Industry Systems Standards (“ACRISS”) and are used in some form by most major car rental companies in describing vehicles and their major features.² A vehicle’s SIPP code is delineated by four letters, each letter representing a different aspect of the vehicle:

² A list of codes and their explanations can be found on ACRISS’s website: <https://www.acriss.org/car-codes/>.

- First letter: size, power, and luxury
- Second letter: vehicle type (van, SUV, convertible, etc.)
- Third letter: transmission and drive (automatic or manual transmission, and 2WD, 4WD, or AWD)
- Fourth letter: fuel type and whether the vehicle is equipped with air conditioning

The following is a list of the features under each of the categories represented by each letter of the code³:

CATEGORY		TYPE		TRANSMISSION / DRIVE	FUEL/AIR COND.
M	Mini	B	2-3 Door	M Manual Unspecified Drive	R Unspecified Fuel/Power With Air
N	Mini Elite	C	2/4 Door	N Manual 4WD	N Unspecified Fuel/Power Without Air
E	Economy	D	4-5 Door	C Manual AWD	D Diesel Air
H	Economy Elite	W	Wagon/Estate	A Auto Unspecified Drive	Q Diesel No Air
C	Compact	V	Passenger Van	B Auto 4WD	H Hybrid Air
D	Compact Elite	L	Limousine/Sedan	D Auto AWD	I Hybrid Plug in Air
I	Intermediate	S	Sport		E Electric (Distance < 250mi/400km) Air
J	Intermediate Elite	T	Convertible		C Electric Plus (Distance ≥ 250mi/400km) Air
S	Standard	F	SUV		L LPG/Compressed Gas Air
R	Standard Elite	J	Open Air All Terrain		S LPG/Compressed Gas No Air
F	Fullsize	X	Special Pick up		A Hydrogen Air
G	Fullsize Elite	P	(single/extended cab) 2 door		B Hydrogen No Air
P	Premium	Q	Pick up (double cab) 4 door		M Multi Fuel/Power Air
U	Premium Elite	Z	Special Offer Car		F Multi fuel/power No Air
L	Luxury	E	Coupe		V Petrol Air

³ Ibid



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W	Luxury Elite	M	Monospace		Z	Petrol No Air
O	Oversize	R	Recreational Vehicle		U	Ethanol Air
X	Special	H	Motor Home		X	Ethanol No Air
		Y	2 Wheel Vehicle			
		N	Roadster			
		G	Crossover			
		K	Commercial Van/Truck			

For example, the codes for a typical Chevrolet Malibu or Toyota Camry could be FCAR (F=full-size, C=2/4 door, A=auto drive, R=unspecified fuel with air conditioning).

SIPP codes are used by many of our member companies to provide customers a car that is comparable to the car listed on their reservation. If a customer reserves a full-size, 2/4 door, auto drive, unspecified fuel with air conditioning vehicle, then the car rental company will provide the customer with either a Chevrolet Malibu or another vehicle with the same SIPP code (e.g., a Toyota Camry).

The use of SIPP codes varies somewhat from company to company (e.g., some companies may classify a Chevrolet Malibu as a Fullsize (F) while others may classify it as Standard (S)) and thus could not be applied consistently to the Sec. 45W tax credit without some flexibility to account for classification differences. However, given the broad “size and use” standard utilized in the Sec. 45W tax credit, the IRS could allow a flexible application that focuses on the first three letters of the SIPP code and allows combinations of the first letter of the SIPP code.⁴ For example, the IRS could determine that, for purposes of the Sec. 45W tax credit, there is no distinction between a Fullsize vehicle (F) and a Standard vehicle (S). Under this approach, a Toyota Camry Hybrid with a SIPP code of FCAH would be comparable to a vehicle with a SIPP code of FCA (such as a non-hybrid Toyota Camry or Chevrolet Malibu) or SCA (such as a Volkswagen Jetta).

This safe harbor would allow taxpayers to rely on objective data, while providing a simple yet consistent method to apply Sec. 45W(b)(3).⁵ Our recommendation is consistent with

⁴ The vehicles that are subject to comparison under Section 45W(b)(3) will inherently have a different fourth letter (representing a fuel type) because a qualified commercial clean vehicle will, by definition, have a different fuel type than the comparable internal combustion engine vehicle.

⁵ The IRS currently uses third-party classification systems in applying certain aspects of the Internal Revenue Code. For example, Treas. Reg. 1.132-4(a)(2)-(3) utilizes the Enterprise Standard Industrial Classification Manual prepared by the Statistical Policy Division of the U.S. Office of Management and Budget in determining an employer’s line of business for purposes of allowing certain fringe benefits under Sec. 132(a). The North American Industry Classification System codes are used under Treas. Reg.

the policy objective of that provision, namely, to encourage investment in transportation modes that reduce greenhouse gas emissions while ensuring parity between the after-tax capital costs of purchasing clean vehicles versus similar internal combustion engine vehicles.

Question (3): Aspects of Sec. 30D(f) that should apply, or be modified to apply to the Sec. 45W tax credit: Credit recapture rules

Sec. 45W(d)(1) provides that rules similar to those applicable to the electric vehicle credit under § 30D(f) shall apply for purposes of the Sec. 45W credit, including the recapture rules. Treasury and the IRS have requested which of these rules should be applied without modification and which should be modified.

ACRA members believe that Treasury and the IRS should adopt recapture rules similar to those found in Treas. Reg. §1.30-1(b)(2)(i) and (ii) (repealed) pertaining to qualified electric vehicles with a modification in response to consumer demand for the newest models with enhanced safety features. As described more fully in the next paragraphs, no recapture should occur on a sale or other disposition of a qualified commercial clean vehicle unless the taxpayer sells or disposes of the vehicle within 12 months from the date the vehicle is placed in service, and the taxpayer knows or has reason to know that the vehicle will be modified so that it no longer meets the requirements for a qualified commercial clean vehicle under Sec. 45W(c)(3) or will be used in a manner described in Sec. 50(b).

Under Treas. Reg. §1.30-1(b)(2)(ii), a sale or other disposition of a qualified clean vehicle should not be a recapture event so long as the vehicle continues to be powered in a manner that results in lower carbon emissions (or in no such emissions) and continues to be predominantly used in the United States after that sale or disposition. However, under Treas. Reg. §1.30-1(b)(2)(i)(C), a disposition may give rise to a recapture event if a taxpayer sells the vehicle within three years of placing it into service and that taxpayer knows or has reason to know that the vehicle sold will be modified so that it is no longer powered by electricity or will be used predominantly outside the United States. This provision presents a challenge to ACRA members, as they typically sell and replace their rental fleets within 12 to 18 months of purchase in order to satisfy consumer preferences for newer models with enhanced safety features. Our members also do not typically know how the purchasers of their vehicles will use them post-sale. This creates uncertainty for our members that would limit the usefulness of the Sec. 45W tax credit if it cannot be overcome.

1.512(a)-6(b)(1)-(3) in determining whether an organization has separate unrelated trades or businesses for purposes of calculating its unrelated business taxable income under Sec. 512(a).

To create greater certainty for taxpayers, we recommend that the period of time during which the Sec. 45W tax credit could be subject to recapture be lowered to 12 months from three years. In addition, if a provision similar to Treas. Reg. §1.30-1(b)(2)(i)(C) is implemented, we recommend that the IRS should provide practical guidance on application of the "reason to know standard," such that car rental companies operating in the ordinary course of business would not unwittingly run afoul of this rule in connection with sales of their fleets.

Under Sec. 30D(f)(1), when a qualified clean vehicle is purchased and placed in service, its tax basis is reduced by the amount of the credit. A similar basis reduction rule existed under Sec. 30. The Sec. 30 regulations further provided that, when the vehicle was subsequently sold, the amount of that basis reduction was treated as prior depreciation, resulting in an equivalent amount of the gain on that subsequent sale being treated as depreciation recapture under Sec. 1245. The IRS should confirm that the same treatment applies to taxpayers claiming the Sec. 45W tax credit.

Question (8): Other terms that require additional guidance

Purchase price of a qualified commercial clean vehicle

ACRA members are seeking guidance regarding the "purchase price" of an acquired clean vehicle for taxpayers whose purchases of large quantities of clean vehicles involve volume discounts. For purposes of determining the incremental cost of a clean vehicle when compared to a comparable vehicle, we suggest an elective safe harbor for purchasers of large quantities of clean vehicles. For this purpose, a large quantity commercial purchaser could be defined as a taxpayer that purchases more than 250 vehicles during a tax year.

The proposed safe harbor would rely on regularly published purchase price information (from automotive manufacturers) regarding a clean vehicle's MSRP using only base model, trim level, and battery size and cost. All other (non-battery) add-on costs, after-market items, and other such costs would not be considered for purposes of the safe harbor. This would simplify and reduce the administrative burden of implementing the credit.

Purchase price of a comparable vehicle

We recommend a similar elective safe harbor that would apply in determining a "purchase price" of a hypothetical comparable ICE vehicle. The safe harbor would utilize the same published MSRP information for base model and trim level previously discussed (excluding the battery size and cost). Such a safe harbor would permit an "apples to apples" comparison and ensure consistent administration and proper application of the credit. To ensure a consistent and meaningful comparison, a commercial purchaser that elects the safe harbor must use it in determining the relative costs of both the purchased qualified clean vehicles and the identified comparable vehicles.



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Neither elective safe harbor should prohibit taxpayers from utilizing actual purchase price information if they so choose.

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The United States car rental industry prides itself as a key ally in the efforts to reduce greenhouse gas emissions and the “greening” of America. ACRA, our member companies and employees thank you for the opportunity to provide these comments. We look forward to working with Treasury and the IRS on the development of guidance that encourages the robust and appropriate use of the Sec. 45W tax credit. If ACRA can answer any questions regarding these comments or provide additional information, please contact Greg Scott at gscott@merevir.com or 202-297-5123.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Sharky Laguana", with a long horizontal flourish extending to the right.

Sharky Laguana
President
American Car Rental Association

Chief Executive Officer
Bandago, Inc.