

HYBRID FEDERAL TAX CREDITS

The Internal Revenue Service has acknowledged the certification by Toyota Motor Sales U.S.A., Inc. (TMS) that several of its 2005, 2006, 2007 and 2008 model year vehicles qualify for the hybrid tax credit enacted by the Energy Policy Act of 2005. The purpose of this legislation is to encourage the purchase of fuel-efficient hybrid-electric vehicles that help to reduce air pollution and use less gasoline. The tax credit for hybrid vehicles may be available to taxpayers who purchase qualified vehicles on or after January 1, 2006.

Hybrid vehicles purchased in 2004 or 2005 calendar year may have allowed their owners a \$2,000 deduction from their taxable income; in 2006 and 2007, that deduction is replaced by a hybrid tax credit, which may be applied to the purchaser's federal tax liability. An individual's income tax liability can be subject to a number of factors, so consult a tax or accounting professional when claiming a deduction or credit on one's income tax return.

How to qualify for the hybrid tax credit

1. The hybrid vehicle must be new. Used vehicles will not qualify.
2. The hybrid vehicle must be purchased. Leased vehicles will not allow the lessee to take advantage of the hybrid tax credit.
3. The purchaser must accept delivery of the hybrid vehicle from the dealer on or after January 1, 2006. A hybrid vehicle delivered before that date may qualify for the previously available \$2,000 tax deduction, but will not qualify for the hybrid tax credit. However, a hybrid vehicle delivered on or after January 1, 2006 will no longer qualify for the \$2,000 tax deduction.
4. The hybrid tax credit amounts will be reduced for deliveries after September 30, 2006.
5. The purchaser must retain appropriate documentation showing the purchase of the vehicle and the date of the delivery of the vehicle.

The benefit of the hybrid vehicle tax credit will also be substantially reduced or eliminated if the individual purchaser is subject to the federal alternative minimum tax (AMT). Individual purchasers and corporations who have business use of the hybrid vehicle are subject to different tax laws that may also substantially reduce or eliminate the tax benefits. Again, it is recommended that you consult a tax or accounting professional when claiming a deduction or credit on your income tax return.

Eligible Lexus models

The IRS has certified the credit amounts for the following vehicles:

- RX 400h (AWD = \$2,200; FWD = \$2,200)
- GS 450h = \$1,550
- LS 600h L = \$1,800

Limits on the number of hybrids eligible to receive the tax credit

The amount of the tax credit depends on how many hybrids a manufacturer has sold to its dealers within a specified period—Toyota and Lexus are considered one manufacturer. The full tax credit will be available for purchases completed through the calendar quarter following the quarter in which the manufacturer reaches cumulative sales of 60,000 hybrid vehicles. The tax credit is then reduced by one-half for the next six months; by another one-half for the next six months; and then phased out completely. TMS is required to include sales of all Toyota and Lexus hybrids sold in all 50 states on or after January 1, 2006 towards a single 60,000 unit threshold.

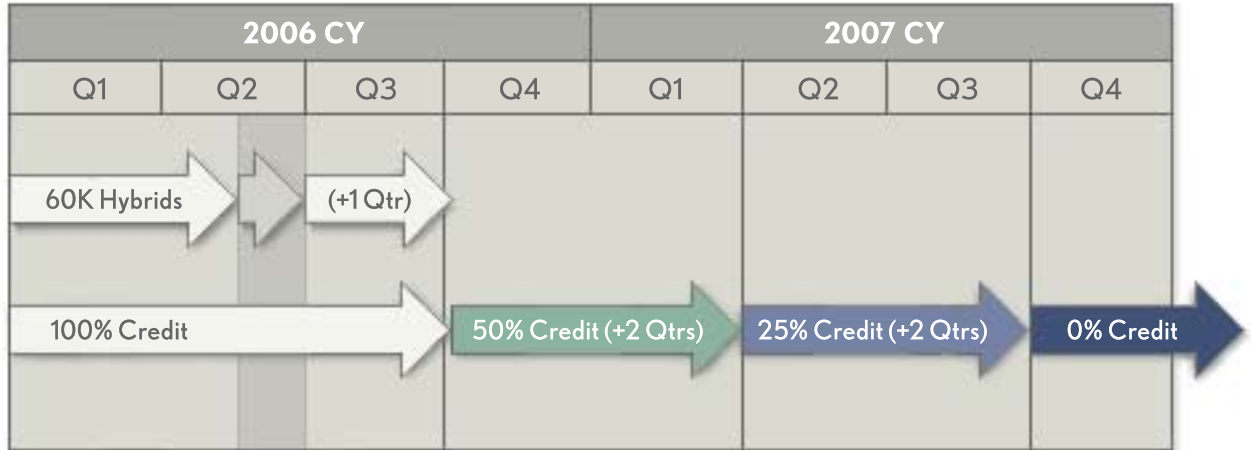
This does not mean that only 60,000 Toyota/Lexus hybrid buyers will be eligible for 100 percent of the credit. There will certainly be more. Because the 60,000 sales mark was reached in May 2006, hybrid vehicles purchased for the remainder of that calendar quarter (i.e., through June 30, in this case) and the following quarter (July through September) are also eligible for 100 percent of the credit. -In the two subsequent two-quarter periods, there is no limit to the number of buyers who can respectively be eligible for 50 percent and 25 percent of the credit. Finally, after the fifth quarter following the quarter in which the manufacturer reaches cumulative sales of 60,000-hybrids, the tax credit expires for that manufacturer and its customers.

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When will Toyota/Lexus hit the 60,000-hybrid threshold?

Toyota/Lexus hybrid sales from January 1, 2006 through May 31, 2006 totaled 68,637. As TMS reached the 60,000 cumulative-hybrid-sales threshold during the 2nd Quarter 2006, credits will therefore be reduced by one-half beginning with vehicles put into service by consumers after September 30, 2006. Please see calendar below for the TMS hybrid tax credit phase-out schedule.

Toyota Motor Sales, U.S.A., Inc. (includes Toyota + Lexus vehicles) estimates to cross the 60,000 threshold during the 2nd Quarter of 2006.



RX 400h estimated amounts:

100% = \$2,200

50% = \$1,100

25% = \$550

0% = \$0

GS 450h estimated amounts:

100% = \$1,550

50% = \$775

25% = \$387.50

0% = \$0

LS 600h L estimated amounts:

100% = \$1,800

50% = \$900

25% = \$450

0% = \$0

More information

For more information about the hybrid tax credits, visit one of these sites:

- Fuel Economy.gov (http://www.fueleconomy.gov/feg/tax_hybrid_new.shtml)
- U.S. Department of Energy (<http://www.energy.gov/taxbreaks.htm>)
- Internal Revenue Service (IRS) (<http://www.irs.gov/newsroom/article/0,,id=156048,00.html>)

This summary does not constitute tax advice. All persons considering the use of this important new hybrid vehicle tax credit should consult with their own tax advisors to determine the specific amount of benefit, if any, that they may be able to claim on their federal income tax returns. Your tax advisor may also have further information on the many state and local tax incentives that may be available to Hybrid vehicle owners.

The above summary is based on the federal income tax law in effect in May 2006, and may be changed, without notice, by later changes to the tax law or further action by the Internal Revenue Service.