

CLIENT REPORT:

Special Tax Break for Purchasers of New Vehicles

Dear Client:

Congress wants you to purchase a new car or truck to help revive the U.S. economy. To encourage new vehicle sales, the American Recovery and Reinvestment Act of 2009 provides a deduction for state and local sales and use taxes. However, the deduction is temporary so you will need to purchase a new vehicle this year to take advantage of the tax savings.

The temporary deduction can be claimed by taxpayers regardless of whether they itemize their deductions or take the standard deduction. Taxpayers who itemize deductions and deduct state and local income taxes can also deduct the new car purchase above-the-line. Taxpayers who deduct state and local general sales taxes as an itemized deduction cannot "double-dip" and take the above-the-line deduction for new car sale taxes. While loosely described -- even by the IRS -- as above-the-line, technically, the new deduction is an increase in the standard deduction. As such, it does not reduce adjusted gross income, which is used to limit certain other deductions.

Taxpayers can deduct state and local sales and use taxes paid on the first \$49,500 of the purchase price of the new vehicle. . In addition to cars, SUVs, light trucks, motorcycles, and mobile homes qualify as new vehicles. Leased vehicles do not qualify for the deduction. Used vehicles also do not qualify for the deduction. New hybrid vehicles, on the other hand, may entitle you not only to the new vehicle sales tax deduction but also to an alternative motor vehicle tax credit.

As we mentioned, the deduction is temporary. The new vehicle must be purchased after February 16, 2009, and before January 1, 2010. You do not have to purchase a 2009 model vehicle. A 2008 vehicle will qualify as long as it is new and you are the first-time user, the IRS has indicated.

There are also important income limitations. The deduction is phased out for single individuals whose modified adjusted gross income (AGI) is between \$125,000 and \$135,000 and for married couples filing jointly whose modified AGI is between \$250,000 and \$260,000.

Additionally, taxpayers will not benefit from the deduction until they file their 2009 income tax returns in 2010. In other words, taxpayers cannot retroactively treat the vehicle purchase as being made on December 31, 2008 and claim the deduction on their 2008 return. The IRS allows this special treatment for the first-time homebuyer tax credit but not for the new vehicle deduction.

If you have any questions about this new tax break, please give our office a call.

Sincerely yours,

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