

Tax break for new car buyers in the American Recovery and Reinvestment Act of 2009

Dear Reader,

In hopes of spurring the overall economy in general, and the automobile industry in particular, the recently enacted "American Recovery and Reinvestment Act of 2009" includes a new tax break for purchasers of new cars: a deduction for state and local sales and excise taxes paid on new vehicle purchases. Here are the details.

Sales tax is generally not a deductible item for individuals. A limited exception allows taxpayers who itemize their deductions to claim either state and local income taxes or state and local general sales taxes, which mainly benefits taxpayers with a state or local sales tax but no income tax. Under the new law, buyers can claim an income tax deduction for the sales or excise tax they pay on a vehicle purchase. Key details of this new tax incentive include:

- The tax break applies to purchases of passenger cars, minivans, light trucks, motorcycles, and motor homes, but it only applies on \$49,500 of the vehicle's price and it only applies to new vehicles.
- The tax break covers new vehicles purchased between Feb. 17, 2009 and the end of 2009.
- You do not have to itemize your deductions to be able to claim the deduction. However, the deduction cannot be taken by a taxpayer who elects to deduct state and local sales taxes in lieu of state and local income taxes.
- Only couples making less than \$250,000 a year, or individuals making less than \$125,000 annually, qualify for the full deduction.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call.

