

Deducting Sales and Excise Tax on a New Vehicle Purchase

If you recently purchased a new vehicle, or intend to purchase one by the end of the year, you may benefit from a temporary new deduction created by the American Recovery and Reinvestment Act, which was signed into law in February.

As a result of this legislation, if you purchase a new passenger automobile, light truck, or motorcycle (vehicles must have a gross weight rating of no more than 8,500 pounds) on or after February 17, 2009, and before January 1, 2010, you'll generally be able to deduct any state or local sales and excise tax you pay on the purchase on your 2009 federal income tax return. New motor home purchases can qualify as well.

Individuals who itemize deductions on Form 1040, Schedule A, can include state or local sales and excise tax as part of their deduction for taxes paid. If you don't itemize deductions, you can deduct the qualifying sales and excise tax as part of your standard deduction.

There are, however, a couple of limitations:

The amount of sales and excise tax that you can deduct is capped at the amount that would be paid on a vehicle with a purchase price of \$49,500. So, if you purchase a \$100,000 motor home, only the sales and excise tax attributable to the first \$49,500 of your purchase price is deductible. You're not entitled to a deduction if your modified adjusted gross income (MAGI) is greater than \$135,000 (\$260,000 if you are married and file a joint return). And you're only entitled to a partial deduction if your MAGI is between \$125,000 and \$135,000 (between \$250,000 and \$260,000 if you are married and file a joint return).

Note: For 2009, you already had the option to deduct general state and local sales tax *in lieu of* state and local income taxes--the new rules allow you to deduct the state or local sales and excise tax attributable to a new vehicle purchase *in addition to* state and local income tax. The new rules are also more generous in cases where your state imposes sales tax on a new vehicle purchase at a rate that's higher than the general sales tax rate: the temporary deduction rules allow you to deduct the actual tax paid (subject to the limits noted above) instead of limiting you to the tax that would have been paid under the general sales tax rate.

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